



FRANCHISE DISCLOSURE DOCUMENT
THE CLOSET FACTORY FRANCHISE CORPORATION

(A California Corporation)

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The Franchisee will operate a Closet Factory Business which will market, install, repair, and service custom closets and storage systems for consumers and sell other related products and services.

The total investment necessary to begin operations of a Closet Factory franchise ranges from \$392,500 to \$663,500. This includes \$58,500 that must be paid to the franchisor or affiliate.

This Disclosure Document summarizes certain provisions of your franchise agreement and other information in plain English. Read this Disclosure Document and all accompanying agreements carefully. You must receive this Disclosure Document at least 14 calendar-days before you sign a binding agreement with, or make any payment to, the franchisor or an affiliate in connection with the proposed franchise sale. Note, however, that no governmental agency has verified the information contained in this document.

You may wish to receive your Disclosure Document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact our Chief Executive Officer and Chief Financial Officer, John La Barbera at 12800 South Broadway, Los Angeles, California 90061 and 310-516-7000, john.labarbera@closetfactory.com.

The terms of your contract will govern your franchise relationship. Don't rely on the Disclosure Document alone to understand your contract. Read your entire contract carefully. Show your contract and this Disclosure Document to an advisor, like a lawyer or an accountant.

Buying a franchise is a complex investment. The information in this Disclosure Document can help you make up your mind. More information on franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this Disclosure Document, is available from the Federal Trade Commission.

You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, D.C. 20580. You can also visit the FTC's home page at www.ftc.gov for additional information. Call your state agency or visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask your state agencies about them.

Issuance Date: April 28, 2025, as amended August 13, 2025

How to Use This Franchise Disclosure Document

Here are some questions you may be asking about buying a franchise and tips on how to find more information:

QUESTION	WHERE TO FIND INFORMATION
How much can I earn?	Item 19 may give you information about outlet sales, costs, profits or losses. You should also try to obtain this information from others, like current and former franchisees. You can find their names and contact information in Item 20 or Exhibit G.
How much will I need to invest?	Items 5 and 6 list fees you will be paying to the franchisor or at the franchisor's direction. Item 7 lists the initial investment to open. Item 8 describes the suppliers you must use.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit A includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only Closet Factory business in my area?	Item 12 and the "territory" provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What's it like to be a Closet Factory franchisee?	Item 20 or Exhibit G lists current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	These questions are only a few things you should look for. Review all 23 Items and all Exhibits in this disclosure document to better understand this franchise opportunity. See the table of contents.

What You Need To Know About Franchising *Generally*

Continuing responsibility to pay fees. You may have to pay royalties and other fees even if you are losing money.

Business model can change. The franchise agreement may allow the franchisor to change its manuals and business model without your consent. These changes may require you to make additional investments in your franchise business or may harm your franchise business.

Supplier restrictions. You may have to buy or lease items from the franchisor or a limited group of suppliers the franchisor designates. These items may be more expensive than similar items you could buy on your own.

Operating restrictions. The franchise agreement may prohibit you from operating a similar business during the term of the franchise. There are usually other restrictions. Some examples may include controlling your location, your access to customers, what you sell, how you market, and your hours of operation.

Competition from franchisor. Even if the franchise agreement grants you a territory, the franchisor may have the right to compete with you in your territory.

Renewal. Your franchise agreement may not permit you to renew. Even if it does, you may have to sign a new agreement with different terms and conditions in order to continue to operate your franchise business.

When your franchise ends. The franchise agreement may prohibit you from operating a similar business after your franchise ends even if you still have obligations to your landlord or other creditors.

Some States Require Registration

Your state may have a franchise law, or other law, that requires franchisors to register before offering or selling franchises in the state. Registration does not mean that the state recommends the franchise or has verified the information in this document. To find out if your state has a registration requirement, or to contact your state, use the agency information in Exhibit E.

Your state also may have laws that require special disclosures or amendments be made to your franchise agreement. If so, you should check the State Specific Addenda. See the Table of Contents for the location of the State Specific Addenda.

Special Risks to Consider About *This* Franchise

Certain states require that the following risk(s) be highlighted:

1. Out-of-State Dispute Resolution. The Franchise Agreement requires you to resolve disputes with us by mediation, arbitration and/or litigation only in California. Out-of-state mediation, arbitration and/or litigation may force you to accept a less favorable settlement for disputes. It may also cost you more to participate in mediation, arbitration and/or litigation with us in California than in your home state.
2. Spousal Liability. Your spouse must sign a document that makes your spouse liable for all financial obligations under the Franchise Agreement even though your spouse has no ownership interest in the franchise. This Guarantee will place both your and your spouse's marital and personal assets perhaps including your house, at risk if your franchise fails.
3. Mandatory Minimum Payments. You must make minimum royalty or advertising fund payments, regardless of your sales levels. Your inability to make the payments may result in termination of your franchise and loss of your investment.

Certain states may require other risks to be highlighted. Check the "State Specific Addenda" (if any) to see whether your state requires other risks to be highlighted.

THE CLOSET FACTORY FRANCHISE CORPORATION
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ITEM 1
THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES

The Franchisor, Business Form, Names and Address

The Closet Factory Franchise Corporation ("CFFC," "we," "us" or "our") is a California corporation which was incorporated on May 17, 1985. Our principal place of business is located at 12800 South Broadway, Los Angeles, California, 90061. We also do business under the name "Closet Factory." In this Disclosure Document, "you" or "your" means the person or legal entity that buys the franchise and includes anyone acting on your behalf or under your control. If a corporation or partnership buys the franchise, "you" or "your" includes all of your owners.

Our agents for service of process are disclosed in Exhibit E.

Our Parents, Predecessors and Affiliates

In 1983, John La Barbera organized our predecessor, The Closet Factory, Inc., a California corporation ("CFI"), whose principal place of business is the same as ours. Mr. La Barbera serves as Co-Chief Executive Officer and Chief Financial Officer of both entities. CFI has, since 1983, operated a business substantially identical to the franchises offered in this Disclosure Document, and currently operates 6 retail outlets according to the standards we prescribe for franchisees, in California. We do not own or operate any retail outlets. We have entered into an agreement with CFI which grants each party rights and privileges and provides relief to CFI from reporting obligations and payment of fees to us, in consideration for our use of CFI's research and development of the business plan and programs. This agreement does not impose any conditions upon our right to grant franchises for Closet Factory Businesses. We began selling Closet Factory franchises in December 1985.

We do not and have not offered franchises in any other line of business. CFI does not offer franchises in any line of business and we have no parent companies.

We have an affiliate, Sierra Support Service, Inc., a California corporation ("Sierra Support Service"), which was incorporated on January 10, 2019, which provides advertising and support services and products. Sierra Support Service is currently an Authorized Supplier of these services and products. We may require you to purchase services and products from our affiliate in the future. The principal business address for Sierra Support Service is the same as ours. Sierra Support Service has never conducted a business of the type to be operated by you and has never offered franchises of any type.

We have an affiliate, Painting Masters Franchise Corporation ("Painting Masters"), a California corporation, which was incorporated on February 2, 2018, whose principal office is the same as ours. Painting Masters offers franchises for businesses that provide residential and commercial painting services. Painting Masters began selling Painting Masters franchises in July 2018. Painting Masters has no franchised outlets as of December 31, 2024 and does not offer franchises in any other line of business.

Our Business and the Franchises to be offered in This State

We offer franchises for businesses in which you will market, design, manufacture, construct, install, repair and service custom closets and storage systems for consumers and sell other related products and services, using our federally registered trademark and other trademarks, logos and services marks that we or

our affiliates own or have the right to use and license you to use (the “Closet Factory Marks” or the “Marks”). We are not involved in any other business activities. The general market for your services will include builders, residential and commercial clients and interior decorators. We regard the market for your services and products to be developing.

Certain aspects of your business may, in some localities, require you or your employees to hold certain vocational or other licenses and permits such as a contractor’s license. These requirements vary from location to location and you should make a thorough and independent investigation of this aspect with state and local authorities before purchasing a Closet Factory Franchise. You must comply with all applicable laws.

You will compete with other businesses providing like services, including, independent closet design and fabricating businesses, contractors, competing franchise chains, stores offering prefabricated ready-to-install shelving and storage units and similar businesses.

ITEM 2 BUSINESS EXPERIENCE

Co-Chief Executive Officer and Chief Financial Officer:

John F. La Barbera

Mr. La Barbera served as our Chief Executive Officer from our founding in May 1985 to February 2016, and as Chief Executive Officer of CFI from its founding in August 1983 to February 2016. Mr. La Barbera has served as our Co-Chief Executive Officer and as Co-Chief Executive Officer of CFI since February 2016. Mr. La Barbera has served as our Chief Financial Officer from May 1985 to the present and as the Chief Financial Officer of CFI from August 1983 to the present. Mr. La Barbera has also served as the Co-Chief Executive Officer and Chief Financial Officer of Sierra Support Service, in Los Angeles, California since January 2019, and as the Co-Chief Executive Officer and Chief Financial Officer of Painting Masters in Los Angeles, California since February 2018.

Co-Chief Executive Officer:

Gregory K. Stein

Mr. Stein joined us as our President and as President of CFI in 1992. Mr. Stein has served as our Co-Chief Executive Officer and as Co-Chief Executive Officer of CFI since February 2016. From January 2019 to the present, Mr. Stein has also served as the Co-Chief Executive Officer of Sierra Support Service, in Los Angeles, California since January 2019, and as the Co-Chief Executive Officer of Painting Masters in Los Angeles, California since February 2018.

President:

Jeff Henderson

Mr. Henderson has served as our President since June 2025. Mr. Henderson served as the Chief Executive Officer of our franchisee, Inspired Design Company LLC dba The Closet Factory, in Grapevine, Texas since July 2020. From June 2015 to December 2020, Mr. Henderson served as Chief Executive Officer of JAG Restaurant Group in San Jose, California.

Chief Operating Officer:

Stephen Newman

Mr. Newman has served as our Chief Operating Officer since June 2025. Mr. Newman served as President and Chief Executive Officer of our franchisee, Save Bucks, Inc. dba The Closet Factory in Deerfield Beach, Florida since April 2005.

Vice President of Business Development:

Dan Grandon

Mr. Grandon has served as our Vice President of Business Development since January 2023. From February 2016 to December 2022, Mr. Grandon served as our President. Mr. Grandon has also served as the Vice President of Painting Masters in Los Angeles, California since February 2018.

ITEM 3
LITIGATION

No litigation is required to be disclosed in this Item.

ITEM 4
BANKRUPTCY

No bankruptcies are required to be disclosed in this Item.

ITEM 5
INITIAL FEES

The initial franchise fee is \$58,500 and is nonrefundable. You must pay us the initial franchise fee in full when you sign the Franchise Agreement. The initial franchise fee is uniform to all parties applying to purchase a franchise; however, we may reduce, finance, defer or waive the initial franchise fee if and when we determine, in our discretion, it is warranted by a unique or compelling situation.

ITEM 6
OTHER FEES

Name of Fee ⁽¹⁾	Amount	Due Date	Remarks
Royalty	Equal to the greater 6.75% of Gross Receipts ⁽²⁾ or \$975 per week.	First day following the close of each week.	If we do not receive your royalty payment when due, we may debit your account by an amount equal to the greater of: (i) the minimum continuing royalty; or (ii) an amount equal to the average royalty amount due over the most recent 10 royalty periods for which we have received Gross Receipts data. Minimum royalty does not begin until the 40 th week following the opening of your Closet Factory Outlet. The minimum continuing royalty amount is applicable only if the 4-week moving average of 6.75% of Gross Receipts falls below the minimum

Name of Fee ⁽¹⁾	Amount	Due Date	Remarks
			continuing royalty amount as adjusted for inflation. Subject to inflation adjustment. If your Closet Factory Outlet is operating in Holdover Status after the expiration of the Franchise Agreement, you must pay a minimum continuing royalty amount of \$1,200.00 per week or 13.5% of Gross Receipts, whichever is greater, in lieu of the minimum continuing royalty amount specified above.
Marketing Fund and Mandatory Marketing Expenditures	Minimum of 15% of Gross Receipts ⁽²⁾	Same as royalties.	We have the right to specify how these mandatory marketing expenditures are made, whether to a Marketing Fund, Franchise Marketing Group, local advertising, or otherwise. We will not direct you to spend an amount greater than 15% of Gross Receipts, in the aggregate, to all marketing activities. If you spend less and you do not have our consent, one-half of the difference between what you actually spend and 15% will be paid to us as an additional Marketing Fund contribution. Currently, any required payments under this section will be determined on a quarterly basis. This Marketing Fund contribution will be in addition to current required expenditures and may not be credited against any present or future obligations you may have.
Promotional Campaigns	Actual Cost	As Incurred.	We may in the future establish and conduct promotional campaigns on a national or regional basis to promote particular products or marketing themes. If we do so, you will participate in these promotional campaigns as we direct. You may be required to purchase point of sale advertising material, posters, flyers, product displays and other promotional materials.
Grand Opening Marketing Program	Minimum of \$20,000	Within 3 months of opening business.	Payments for local advertising and marketing may be payable to local suppliers.

Name of Fee ⁽¹⁾	Amount	Due Date	Remarks
Interest and Late Fees on Late Payments or Reports	\$75 per payment/ Report. Interest on delinquent payments bear interest at the highest applicable legal rate for open account business credit, which is currently 10% annually in California, but not to exceed 1.5% per month.	Upon demand.	If we use the Marketing Fund to complete or correct a job which you have failed or refused to complete or correct, or to defend or settle a lawsuit brought by any of your customers or anyone else alleging injury arising out of your activities related to the Closet Factory Outlet, you must reimburse the Marketing Fund for these expenditures, together with interest at the prime rate of interest then in effect at Bank of America, plus 4% per annum (or the highest rate of interest allowed under applicable law).
Transfer Fee	\$18,500	Before transfer.	Subject to inflation adjustment, subject to state law.
Renewal Fee ⁽³⁾	\$7,000	Payable at the time of written notice by you to exercise renewal option.	
Tuition Fee - Optional Training Programs	\$200 per day for optional training programs.	Payable before attending training.	You must pay for all expenses incurred by you and your supervisory and managerial personnel in connection with all training programs.
Regional Leadership Conference / Possible Convention Absence Fee	We will charge \$750.00, per Franchisee, if Franchisee fails to attend a Regional Leadership Conference or other meeting designated by us as mandatory.	If assessed, 10 days after first day of the designated conference.	Unless you fail to comply with our attendance requirements, we do not charge any attendance fee for one person per Closet Factory Outlet for each mandatory meeting. Typically, there will be at least 2 designated meetings per year.
Audit Expenses	Cost of audit and understatement plus interest.	Upon demand	Costs of audit payable if you fail to furnish required reports and documents, understatement of Gross Volume is greater than 2%.
Remedial Training	\$200 per day, plus the actual out of pocket costs we incur, if any	Upon demand.	If we determine it to be necessary, we may provide you and your supervisory or managerial personnel with on-site remedial training or assistance subject to the availability of our personnel. You must pay a fee we will charge you and other franchisees to defray the direct costs of providing this remedial training.
Management Fee	\$500 per day	Upon demand.	After we give you written notice that you are in default, we may (but are not obligated to) assume management of your Closet Factory Outlet. If we do so, we have the right to charge you a fee for our management services.
ClosetWare License Fee ⁽⁴⁾	\$94.68 per month	As arranged.	

Name of Fee ⁽¹⁾	Amount	Due Date	Remarks
Potential Customer Lead Referral Fee	Between \$30 and \$75 per referral, as determined in our Business Judgment	Upon demand.	We may provide you with potential customer leads obtained through the Internet or other sources.

(1) Unless otherwise noted above, all fees are uniformly imposed, collected by and payable to us. Payments for local advertising, marketing and promotion may be payable to local suppliers of these services. All fees are nonrefundable. You must participate in our then-current electronic funds transfer and reporting programs. None of these fees are imposed by a cooperative.

(2) "Gross Receipts" means all revenues which are received by you or any affiliate (on your behalf or benefit) less sales tax collected, customer refunds, adjustments and credits: (a) by or with respect to your Closet Factory Outlet; (b) which relate to the type of products, services or any other items which are or could be provided, sold, rented or otherwise distributed at, through or in association with a Closet Factory Business; (c) in association with any use of the Closet Factory Marks, the Closet Factory System, or any related techniques, systems, procedures, or know-how; or (d) with respect to the operation of any Similar Business (but our receipt, acceptance or otherwise of any royalties with respect to any Similar Business will not constitute approval of your, or anyone else's, involvement with any Similar Business.)

There will be no deduction for credit card or other charges.

(3) In the event of a transfer, the transferee may elect to extend the remaining Term of the Franchise being acquired to a full Term then being offered. The transferee pays us a pro-rated renewal fee, which amount is in addition to any transfer fee. The pro-rated renewal fee will be calculated based on the following formula: (Pro-rated renewal fee) = (current renewal fee) x (months in a full term less the months remaining in transferred term)/ (months in a full term). By way of example, if the current renewal fee is \$7,000, the remaining term is 24 months and a current full term is 60 months, the pro-rated renewal fee would be \$7,000 x (60-24)/ (60) or \$4,200.00.

(4) You are required to obtain one full user access license for \$94.68 per month to use the ClosetWare software to operate your Closet Factory Outlet. Additional fees may be charged by the software licensor for additional users.

ITEM 7 ESTIMATED INITIAL INVESTMENT

YOUR ESTIMATED INITIAL INVESTMENT

Type Of Expenditure	Estimated Amount	Method Of Payment	When Due	To Whom Payment Is To Be Made
Initial Franchise Fee	\$58,500	Lump Sum	On signing of the Franchise Agreement	Us
Site Location ⁽¹⁾	\$28,000 - \$64,000	Lump Sum	As Incurred	Lessor
Property Improvements ⁽²⁾	\$10,000 - \$40,000	As Arranged	As Incurred	General Contractors
Equipment, Fixtures and Furniture ⁽³⁾	\$180,000 - \$300,000	As Arranged	As Incurred	Authorized Suppliers

Type Of Expenditure	Estimated Amount	Method Of Payment	When Due	To Whom Payment Is To Be Made
Vehicles ⁽⁴⁾ (Deposit on lease)	\$10,000 - \$15,000	As Arranged	As Incurred	Local Suppliers
Signage and Uniforms	\$2,000 - \$6,000	As Arranged	As Incurred	Authorized Suppliers
Product and Supply Inventories	\$14,000 - \$25,000	As Arranged	As Incurred	Authorized Suppliers
Grand Opening Marketing Program	\$30,000 - \$55,000	As Incurred	As Incurred	Various Suppliers
Additional Funds - 3 months ⁽⁵⁾ ⁽⁶⁾	\$60,000 - \$100,000	As Incurred	As Incurred	Various Suppliers
TOTAL ⁽⁶⁾	\$392,500- \$663,500			

NOTE: Amounts are uniformly imposed and not refundable, unless noted otherwise.

(1) We estimate that your monthly rent will range from \$7,000 to \$16,000. The estimate provided above is for the cost of 3 months' rent plus a security deposit equivalent to one month's rent. Real estate costs will depend on many factors including the location and size of the site and the prevailing pricing, terms and conditions of leasing. We can make no estimate as to the cost of purchasing a site/facility for your Closet Factory® Business.

(2) Your site must comply with our currently approved specifications and standards. The cost of property improvements depends upon the size and condition of the premises of your Closet Factory Outlet and the cost of local contract work.

(3) Price and payment terms are set by the various Authorized Suppliers. If you request, we will assist you in obtaining suitable equipment and financing from third parties. This amount includes an estimated \$2,500 for your computer system.

(4) Estimated amount based on the required deposit on a lease of 2-3 vans.

(5) You must, at all times, maintain adequate reserves and working capital sufficient for you to fulfill all of your obligations under the Franchise Agreement and to cover the risks and contingencies of the franchised business for at least three (3) months. This Additional Funds figure represents an estimate of the capital you will need to cover any other miscellaneous required business (not personal) expenses you may incur before opening and through the first 3 months of operation of the franchised business. You will need working capital to support on-going costs of your business, such as payroll, utilities, taxes, loan payments and other expenses. New businesses (franchised or not) often have larger expenses than revenues..

The Additional Funds figure also includes initial insurance premiums. You must maintain in force policies of insurance issued by carriers approved by us covering various risks. We can specify the types and amounts of coverage required under these policies and require different or additional kinds of insurance at any time, including excess liability insurance. If you fail to maintain required insurance coverage, we can obtain such insurance coverage on your behalf and you will pay us for costs incurred by us. Each insurance

policy must name us and our affiliates as additional named insureds. See Section 10.5 of the Franchise Agreement.

Our current insurance requirements are: (a) comprehensive general liability insurance against claims for bodily and personal injury, death and property damage caused by, or occurring in conjunction with, your Closet Factory Outlet; (b) all risk property and casualty insurance for the replacement value of your Closet Factory Outlet and all associated items; and (c) business interruption insurance providing for continued payment of all amounts due to us or any affiliate of ours under the Franchise Agreement.

ITEM 8

RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

You must purchase, use and offer such Designated Equipment, Products and Services, as are specified by us. We can designate single or multiple suppliers for any given item or service and may concentrate purchases with one or more suppliers. These suppliers may include, and may be limited to, us or companies affiliated with us. You must not offer or deal with any products or services not approved by us. If we disapprove a particular item, you will not use it.

We may condition designation of a supplier on factors we establish, including performance relating to frequency of delivery, standards of service, and payment or other consideration to us or others. We can approve, revoke or deny approval, of particular items or suppliers. We and our affiliates reserve the right to receive rebates, incentive amounts, discounts and other economic benefits from any supplier.

You can request the approval of an item, service or supplier by notifying us in writing and submitting the information or materials we request. We can require you to pre-pay any reasonable charges connected with our review and evaluation of any proposal. We will notify you of our decision within 60 days of our receipt of your written request. We make the criteria for supplier approval available to you. We ordinarily will grant your request for approval of an alternate supplier if the supplier's products or services are of comparable or better quality than items available from Authorized Suppliers, if the proposed supplier's products or services comply with our specifications, and if the proposed supplier agrees to comply with our quality control standards.

Items for Which We or Our Affiliates Are Authorized Suppliers

We may offer to you various classes of approved products or services, although there are no goods or services required to be purchased by you for which we are the only Authorized Supplier. We are an Authorized Supplier for specific jigs and manufacturing pieces. We may supply other items (for which we are not the only Authorized Supplier) to you at your request and will charge you a 15% handling charge on those items you request.

We reserve the right to require you to purchase advertising and support services and products from our affiliate, Sierra Support Service, in the future. Currently, the company is an Authorized Supplier. Sierra Support Service is not the only Authorized Supplier of these services and products and your purchases from the company are voluntary. The company began selling services and products to franchisees in September 2019. Our Co-CEO/CFO and Co-CEO/COO both own an interest in our affiliate.

Our Revenues Based on Your Use of Approved Items

We may derive revenue from Authorized Suppliers on the basis of purchases by franchisees. We do not require any supplier to enter into any payment arrangement as a condition of appointment as an Authorized Supplier, however we reserve the right to receive consideration from Authorized Suppliers for services rendered or rights licensed to Authorized Suppliers. In the fiscal year ending December 31, 2024, our total revenue was \$18,691,201 and our revenue derived from franchisees' purchases from us and other Authorized Suppliers was \$353,793 or 1.89% of our total revenues. Our affiliate, Sierra Support Service's revenue was \$2,790,249 and its revenue derived from franchisees' purchases was \$2,685,919 or 96.26% of its total revenue.

Assuming that the estimated minimum initial costs are within the ranges described in Item 7, we would estimate that the proportion of required purchases and leases to all purchases and leases by you in the establishment and operation of your Closet Factory franchise to be 1-2%.

Benefits Based on the Use of Authorized Suppliers

We do not condition providing benefits (such as the award of a successor or additional franchise) on use of designated or approved sources. However, failure to use approved items might, like other matters, be a default under the Franchise Agreement and, in general, if you are in default, you would not be awarded a successor or additional franchise and might be subject to termination.

Purchasing or Distribution Cooperatives

There currently are no formal or mandatory purchasing or distribution cooperatives. However, we negotiate and receive volume discounts from certain Authorized Suppliers of hardware. You may lower your cost of goods by taking advantage of these volume discounts. Your participation in the arrangement is optional.

Computer Systems

You must purchase or lease the computer hardware and software, and other systems, including back office systems, meeting our specifications. You must maintain your systems online to allow us access to any system data and information. There are no contractual limitations on our right to access the information. Our current specifications for these items are listed in Item 11 of this Disclosure Document.

Insurance

You must maintain in force policies of insurance issued by carriers approved by us covering various risks. We can specify the types and amounts of coverage required under these policies and require different or additional kinds of insurance at any time, including excess liability insurance. If you fail to maintain required insurance coverage, we can obtain such insurance coverage on your behalf and you will pay us for costs incurred by us. Each insurance policy must name us and our affiliates as additional named insureds. See Section 10.5 of the Franchise Agreement.

Our current insurance requirements are: (a) comprehensive general liability insurance against claims for bodily and personal injury, death and property damage caused by, or occurring in conjunction with, your Closet Factory Outlet; (b) all risk property and casualty insurance for the replacement value of your Closet

Factory Outlet and all associated items; and (c) business interruption insurance providing for continued payment of all amounts due to us or any affiliate of ours under the Franchise Agreement.

ITEM 9 FRANCHISEE'S OBLIGATIONS

This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this Disclosure Document.

Obligation	Section in Agreement	Item in Disclosure Document
a. Site selection and acquisition/lease	Franchise Agreement Sections 3.1 – 3.2	Item 8, 11 and 12
b. Pre-opening purchases/leases	Franchise Agreement Sections 3.1 - 3.2	Items 5, 7 and 8
c. Site development and other pre-opening requirements	Franchise Agreement Sections 3.1, 3.3 - 3.5	Items 7, aa and 16
d. Initial and ongoing training	Franchise Agreement Section 5.1	Items 6 and 11
e. Opening	Franchise Agreement Sections 3.6 - 3.7	Item 11
f. Fees	Franchise Agreement Sections 3.9, 5.1-5.3, 8.2, 9.1 - 9.2, 9.4, 9.7, 11.3, 11.6, 11.10, 12.1, 14.3, 14.9, 15.3	Items 5, 6 and 7
g. Compliance with standards and policies/Operations Manual	Franchise Agreement Sections 1.1, 3.1, 3.3, 3.5, 3.9, 4, 5.5, 5.6, 10.1 - 10.3, 11.2	Item 11
h. Trademarks and proprietary information	Franchise Agreement Sections 6.1 - 6.4, 8.1	Items 13 and 14
i. Restrictions on products/services offered	Franchise Agreement Section 10.2	Items 8 and 16
j. Warranty and customer service requirements	Franchise Agreement Section 10.8	Not Applicable
k. Territorial development and sales quotas	Not Applicable	Item 12
l. On-going product/service purchases	Franchise Agreement Sections 10.2 - 10.3	Items 8 and 16
m. Maintenance, appearance and remodeling requirements	Franchise Agreement Section 10.1	Items 7 and 16
n. Insurance	Franchise Agreement Section 10.5	Items 7 and 8
o. Advertising	Franchise Agreement Sections 3.7, Article 11	Items 6, 7, 11 and 13
p. Indemnification	Franchise Agreement Sections 5.6, 7.4, 14.6, 14.8, Exhibit 3.2	Items 6, 12 and 17
q. Owner's participation/ management/staffing	Franchise Agreement Section 10.4	Item 15

Obligation	Section in Agreement	Item in Disclosure Document
r. Records/Reports	Franchise Agreement Sections 12.1 - 12.2	Items 6 and 17
s. Inspections and Audits	Franchise Agreement Sections 13.1 - 13.2	Items 6 and 17
t. Transfer	Franchise Agreement Sections 14.2 - 14.6	Items 6 and 17
u. Renewal	Franchise Agreement Article 15	Items 6 and 17
v. Post-Termination obligations	Franchise Agreement Sections 8.2B, 17.1 - 17.4	Items 6 and 17
w. Non-Competition covenants	Franchise Agreement Sections 8.1, 8.2, 14.3, Exhibit 3.2	Item 17
x. Dispute resolution	Franchise Agreement Sections 19.1 - 19.13	Item 17
y. Security Interest	Franchise Agreement Article 18	Item 17
z. Computer Hardware and Software	Franchise Agreement Article 4	Items 8 and 11

ITEM 10 FINANCING

We do not offer direct or indirect financing. We do not guarantee your note, lease or obligation.

ITEM 11 FRANCHISOR'S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING

Except as listed below, we are not required to provide you with any assistance.

Our Pre-Opening Obligations

(a) We will loan you a copy of the Closet Factory Operations Manual at the time you begin Initial Training. The table of contents of the Operations Manual is attached to the Disclosure Document as Exhibit D. You must operate your Closet Factory Outlet in compliance with the terms of your Franchise Agreement and the Operations Manual. You alone will exercise day-to-day control over all operations, activities and elements of your Closet Factory Outlet, including over your employees. Under no circumstance will we do so or be deemed to do so. The various requirements, restrictions, prohibitions, specifications and procedures of the Closet Factory System with which you must comply under the Franchise Agreement and the Operations Manual do not directly or indirectly constitute, suggest, infer or imply that we control any aspect or element of the day-to-day operations of your Closet Factory Outlet, but only constitute standards to which you must adhere when exercising your control over the day-to-day operations of your Closet Factory Outlet consistent with our policies. (Franchise Agreement, Section 5.5).

(b) We will provide you, your Designated Manager, or other supervisory or managerial personnel with initial training. (Franchise Agreement, Section 5.1).

(c) We supply you with standards for equipment, signs, fixtures and supplies. (Franchise Agreement, Section 3.3).

(d) Virtual Training, Assistance and Inspections. We may provide any or all portions of the initial training program, additional training programs and/or pre-opening on-site opening assistance, remotely over a virtual communication platform designated by us. (Franchise Agreement, Section 5.4).

Our Obligations During the Operation of Your Business

(a) We will furnish advice and guidance to you regarding your Grand Opening Marketing Program. (Franchise Agreement, 3.7).

(b) We will provide guidance in the operation of your Closet Factory Outlet. We may provide this guidance electronically, in writing or telephonically, through training programs or on-site consultations, among other methods. We may (but are not required to) provide on-site consultations at your Closet Factory Outlet, based on notice, availability of personnel and your payment of reasonable travel, food, incidental and lodging expenses. We may elect to charge a reasonable fee for any on-site consultations. We may make recommendations that we deem appropriate to assist your efforts. However, you alone will establish all requirements, consistent with our policies, regarding: (i) employment policies, hiring, firing, training, wage and hour requirements, record keeping, supervision, and discipline of employees; (ii) the individuals to whom you will offer and sell your products and services; and (iii) the suppliers from whom you obtain any products or services used in or at the Closet Factory Outlet for which we have not established Authorized Suppliers. (Franchise Agreement, Section 5.2).

(c) If we find it necessary, we may provide you or your supervisory or managerial personnel with remedial training or assistance, subject to the availability of our personnel. (Franchise Agreement, Section 5.3).

(d) We will evaluate proposed suppliers of components and supplies when requested by you. (Franchise Agreement, Section 10.2).

Marketing

You must spend an amount equal to at least 15% of Gross Receipts on marketing activities. We will specify how these mandatory marketing expenditures are allocated, whether to a Marketing Fund, Marketing Group, local promotion and advertising, or otherwise. We will not direct you to spend more than 15% of Gross Receipts to all marketing activities. You may choose to spend additional amounts for marketing, but those additional amounts will be in addition to, and not in lieu of, the mandatory marketing expenditures required by your Franchise Agreement. If you wish to spend less, you may only do so with our express written consent. If you spend less and you do not have our consent, one-half of the difference between what you actually spend and 15% will be paid to us as an additional Marketing Fund contribution. (Franchise Agreement, Section 11.2).

We have the sole right to market on the Internet and use the Closet Factory Marks on the Internet, including all use of websites, domain names, URLs, directory addresses, email addresses, metatags, linking, advertising, co-branding and other arrangements, and in all other forms of electronic media. (Franchise Agreement, Section 2.2 B. 5). You may not separately register any domain name or any portion of a domain name containing the Closet Factory Marks or participate or market on any website or other form of electronic media (including social technology, social media and social networking platforms) using the Closet Factory Marks unless you first obtain written approval from us. Your general conduct on the Internet or other forms of electronic media, including your use of the Closet Factory Marks or any advertising, is subject to the terms and conditions of the Franchise Agreement and any other rules, requirements or policies that we may identify from time to time. (Franchise Agreement, Section 6.5).

Marketing Fund

We may establish an advertising, publicity and marketing fund (the "Marketing Fund") to promote Closet Factory Outlets and the Brand. You must contribute to the Marketing Fund as directed by us. (Franchise Agreement, Section 11.6). The Marketing Fund may place advertising in any type of media and media coverage may be local, regional or national.

As of December 31, 2024, we have not yet established the Marketing Fund. Therefore, we do not currently require you to pay a Marketing Fund Contribution, but we reserve the right to do so in the future upon ninety (90) days' written notice to you. When the Marketing Fund is implemented, company-owned and affiliate owned Closet Factory Outlets may, but are not required to, contribute to the Marketing Fund. If they do, they will not be required to contribute in the same percentage as you and may stop contributing at any time without notice to you

Since we have not yet established the Marketing Fund, there were no expenditures during the last fiscal year ending December 31, 2024.

We have sole discretion over all matters relating to the Marketing Fund's operations and are solely responsible for its financial management. The Marketing Fund may be used as we consider appropriate and consistent with the Fund purposes, including for product development; signage; creation, production and distribution of marketing, advertising, public relations and other materials in any medium, including the Internet; administration expenses; Brand/image campaigns; media; national, regional and other marketing programs; activities to promote current or future Closet Factory Outlets and the Brand, including correcting faulty or abandoned work by a franchisee; agency and consulting services; research; any expenses approved by us and associated with FACs (defined below) or other Franchisee advisory groups. Among other things, Marketing Fund Contributions may be used for web site development/operation and to pay Internet, Intranet, URL, 800 or similar number, and other charges, fees or expenses, including legal and administrative actions and related legal fees and costs. A brief statement regarding the availability of Closet Factory franchises may be included in advertising and other items produced using the Marketing Fund. (Franchise Agreement, Section 11.6 B).

We can form an informal Franchisee Advisory Committee ("FAC") (or multiple committees) to provide Input to us. FACs are advisory groups we may elect to form, which will provide Input according to the Franchise Agreement and as we may request. We may direct a FAC to adopt its own bylaws, rules, regulations and procedures. (Franchise Agreement, Section 10.9).

All Closet Factory Outlets owned by us will make contributions to the Marketing Fund as if they were subject to the then-current form of Franchise Agreement. We may direct a FAC to adopt its own bylaws, rules, regulations and procedures. As of the date of this Disclosure Document, no FACs have been formed. (Franchise Agreement, Section 11.6 F).

We or any Franchisor-Related Persons/Entities can provide goods, services, materials, etc. (including administrative services or "in-house advertising agency" services) and be compensated for them. We can arrange for goods, services, materials, etc. (including administrative services) to be provided by independent persons/companies and the Marketing Fund will pay all related costs, fees, etc. While we are not required to do so, if we submit any matters for approval to the FACs, and approval is granted, approval will be binding upon you. (Franchise Agreement, Section 11.6 C).

We will account for the Marketing Fund separately and contributions may be used to pay taxes related to the Fund, all administrative and other costs of the Marketing Fund related to its activities and

purposes or as authorized by the relevant Franchise Agreements. If all monies in the Marketing Fund are not spent in the fiscal year, then the funds will be carried over for use in the next fiscal year. We will prepare financial statements for the Marketing Fund annually, which will be furnished to you upon written request. The statements may be audited and any related costs will be paid by the Marketing Fund. No profit, gain or other benefit will directly accrue to us from the Marketing Fund. All interest earned on monies contributed to, or held in, the Marketing Fund will be remitted to the Marketing Fund and will be subject to the restrictions of the relevant Franchise Agreements. (Franchise Agreement, Section 11.6 D).

The Marketing Fund may borrow from us or other lenders to cover deficits and may invest any surplus. We can defer, waive or compromise claims for contributions to, or claims against or with respect to, the Marketing Fund and take legal or other action against any franchisee in default of their obligations or deny them access to programs, materials or other benefits funded by the Marketing Fund. We have no obligation to ensure that expenditures by the Marketing Fund are or will be proportionate or equivalent to contributions to the Marketing Fund by Closet Factory Outlets operating in any geographic area, or that any Closet Factory Outlets will benefit directly, indirectly or in proportion to its contribution to the Marketing Fund. No profit or gain will directly accrue to us from the Marketing Fund. We will not have a fiduciary relationship with the Fund. No funds will be spent by the Marketing Fund primarily for franchisee solicitations. (Franchise Agreement, Sections 11.6 E and 11.6 F).

Your Participation in the Marketing Fund

You must participate in all Marketing Fund programs. You have the right to set your own prices, except that we can specify maximum prices for goods or services to the greatest degree permitted by law. You must fully honor all coupons, price reduction and other promotions/programs as we direct. The Marketing Fund may furnish you with marketing, advertising and promotional materials; however, we can require that you pay the cost of producing, shipping and handling for these materials. (Franchise Agreement, Section 11.7).

Franchisee Marketing Groups

We may choose to form one or more groups of Closet Factory Outlets to conduct various marketing-related activities on a cooperative basis (a “Franchisee Marketing Group” or “FMG”). If one or more FMGs (local, regional, national, or otherwise) are formed covering your Closet Factory Outlet, you must join and actively participate and contribute any required amounts. Each Closet Factory franchisee in Good Standing will be entitled to one vote per territory for each territory that the franchisee owns and that is included in that particular FMG. Each FMG can adopt its own bylaws, rules, regulations and procedures, subject to our consent, provided that we have and will retain final control over all advertising, promotions, marketing, development, and protection plans and expenditures. Any bylaws adopted by a FMG require our consent. (Franchise Agreement, Section 11.9).

We can appoint one representative to participate in all FMG meetings and activities as a non-voting participant. While we are not required to do so, if we submit any matters for approval to a FMG of which you are a member and approval is granted, approval will be binding on you. As of December 31, 2024, no FMGs have been formed. (Franchise Agreement, Section 11.9).

Your Local Closet Factory Outlet Marketing Activities

You must spend for local advertising and promotion of your Closet Factory Outlet each royalty period the amount described in Item 6. We may collect funds and purchase local advertising for you or

direct you to make local advertising expenditures and require you to submit verification of your expenditures. Appropriate local advertising expenditures may include classified telephone directory listings and advertising. The value of discounts, coupon redemptions or products or services given without charge will not be considered to meet your local advertising obligation. (Franchise Agreement, Section 11.8 A).

Your advertising must be in good taste and conform to ethical and legal standards. You must submit to us, for our approval, samples of all advertising and promotional materials for any media. You will not use any advertising or promotional materials or programs disapproved by us and you must use all materials and programs designated by us as mandatory. We can require that a brief statement regarding the availability of Closet Factory franchises be included in advertising used by you or that brochures regarding purchase of Closet Factory franchises be displayed in your Closet Factory Outlet. (Franchise Agreement, Section 11.8 B).

You may not use the Internet, World Wide Web or other electronic media to market or advertise your Closet Factory Outlet. If we allow such use in the future, we can require that any such use be through us, using a designated Internet/Intranet Service Provider (which can be us or an affiliate), and that all pages be accessed through a designated site or meet our specifications. We can require you to pay an Internet/Intranet Service Fee that we can collect in advance on an annual or other basis. (Franchise Agreement, Sections 2.3 C. and 11.6 I).

Promotional Campaigns

We have the right to establish and conduct promotional campaigns on a national or regional basis, during the term of your Franchise Agreement, to promote particular products or marketing themes. You will participate in these promotional campaigns upon such terms and conditions we establish. You acknowledge and agree that such participation may require that you purchase point of sale advertising material, posters, flyers, product displays and other promotional materials. (Franchise Agreement, Section 11.11).

Computer System

You must purchase, use, maintain and update at your expense the software, computer and other systems, including back office systems, meeting our specifications. You must maintain your systems online to allow us access to any system data and information. There are no contractual limitations on our right to access the information. You must comply with our then-current Terms of Use and Privacy Policies and any other requirements regarding all computer and other systems, including Internet usage. Supplier or licensor charges for use, maintenance, support or updates of and to the required systems are payable by you upon receipt. (Franchise Agreement, Section 4.A).

You must obtain a license from our affiliate, Sierra Support Service; 12800 South Broadway, Los Angeles, California, 90061; (310) 516-7000 to use the ClosetWare software which, with your compatible computer hardware, is designed to track leads, advertising and sales information, marketing effectiveness, manufacturing and installation. Operation of the ClosetWare software requires a PC or compatible computer with a minimum of 128 MB of RAM and a 17-inch color monitor, and Microsoft Windows 2000/XP software. We require that you obtain Quick Books accounting software. All hardware may be purchased from the vendor of your choice. We estimate it will cost \$2,500 to purchase or lease a computer system. Since you select your own system, we do not have information regarding the annual costs of any optional or required maintenance update, upgrading or support contracts, as these costs will vary from vendor to vendor and be based on your selections.

You must periodically update or upgrade your computer system and software as designated by us. There are no specific contractual obligations limiting the frequency or cost of your obligation to acquire

upgrades and updates or to replace obsolete or worn out hardware or equipment. We are under no contractual obligations to provide any ongoing maintenance, repairs, upgrades, or updates to your computer system. (Franchise Agreement, Section 4.A).

Methods Used By Us to Select the Location of Your Business

At the time you purchase the franchise, you and we jointly agree on a Territory. Your Closet Factory Outlet will be located in this Territory. Generally, we do not own a premises which is then leased to you. You are solely responsible for selecting your business premises, although you must obtain our written approval of the location of your business. We look at the location you've selected relative to the surrounding service market and the location's lease terms when determining whether or not to approve your location. We have no contractual requirement to approve or disapprove the location you select for your business premises within a specified period of time, however we do expect to notify you of our approval or disapproval within 30 days of your submission of the location of your business premises to us. We may terminate the agreement if you and we cannot agree on a site for your business premises. (Franchise Agreement, Section 2.2).

Typical Length of Time to Open Your Business

The typical length of time between the signing of the Franchise Agreement and the payment of the Initial Franchise Fee and the opening of a franchise is 120 days. Your business must be opened within 6 months from the effective date of the Franchise Agreement. (Franchise Agreement, Section 3.1). Factors affecting this length of time include site leasing, training, leasehold improvements and equipment availability. If you do not begin your business operations within 6 months from the effective date of the Franchise Agreement, then we may send you a notice of our election to terminate your Franchise Agreement.

Our Training Program

You and each Closet Factory Outlet manager (each a "Designated Manager") or other supervisory and/or managerial personnel you select must successfully complete our initial training program to our satisfaction before operating your Closet Factory Outlet. The Initial Franchise Fee covers an initial training program for you, your initial Closet Factory Outlet manager, or other supervisory or managerial personnel, although you must pay for transportation, food and lodging costs incurred by you and your Designated Manager. We can charge a reasonable fee for training of additional or subsequent managers. We can choose to eliminate or shorten training for persons previously trained or with comparable experience. (Franchise Agreement, Section 5.1.A).

You and your manager or other supervisory or managerial personnel must attend additional or refresher training programs, including national and regional conferences, conventions and meetings, as we may reasonably require to correct, improve or enhance your operations, the Closet Factory System and its members. In addition, we can require successful completion of training by your supervisory or managerial personnel as specified by us. (Franchise Agreement, Section 5.1.D).

If we determine that you have not successfully completed (or are not making satisfactory progress in) your initial training, we can either (a) require that a substitute supervisory or managerial employee complete the training or (b) Terminate the Agreement. (Franchise Agreement, Section 5.1.C).

The initial training program includes an overview of our standard management system, marketing, sales and closet installations and lasts approximately 10 business days. Training for each subject is provided at our Los Angeles, California Corporate Office location. The Initial Training Program is offered periodically

as needed. On-the-job field training (both installations and sales) will take place at your facility when you open for business. (Franchise Agreement, Section 5.1.A).

We will not provide the initial training program if you or your affiliate currently owns or operates a Closet Factory Outlet or if the Franchise Agreement is signed as a renewal Franchise Agreement. (Franchise Agreement, Section 5.1.B).

Additional training will occur at Regional Leadership Conferences organized by us and held 1-4 times a year. You must attend all meetings designated by us as mandatory (including each Closet Factory Regional Leadership Conference), unless otherwise excused by us. One supervisory or managerial employee must attend on behalf of each of your Closet Factory Outlets. We will not charge any attendance fee for one supervisory or managerial employee per Closet Factory Outlet for each mandatory meeting. If you fail to attend a Regional Leadership Conference or other meeting designated by us as mandatory, we will charge a \$750.00 Convention Absence Fee (subject to inflation adjustment) per Franchisee to reimburse us for a portion of the direct costs to provide each Conference. . You are responsible for the travel expenses, meals and lodging of you and your Designated Manager, or other supervisory or managerial personnel, (if any) associated with attending all Regional Leadership Conferences. You must purchase various educational materials supplied at the Conferences. Your cost for these materials is our actual expense to provide the materials. (Franchise Agreement, Section 9.7).

The following table summarizes our Initial Training Program:

TRAINING PROGRAM

Subject	Hours Of Classroom Training	Hours Of On The Job Training	Location
Introduction to Closet Factory Manufacturing and Installation Methods	2 hours	24 hours	Los Angeles, CA or Virtual Communication Platform
Hiring and Staffing	2 hours	0 hours	Los Angeles, CA or Virtual Communication Platform
Office Procedures and General Management	8-12 hours	4 hours	Los Angeles, CA or Virtual Communication Platform
Supplies and Equipment	4 hours	0 hours	Los Angeles, CA or Virtual Communication Platform
Advertising	3 hours	0 hours	Los Angeles, CA or Virtual Communication Platform
Accounting and Reports	4 hours	0 hours	Los Angeles, CA or Virtual Communication Platform
In-Home Installation	0 hours	8 hours	Los Angeles, CA or Virtual Communication Platform
Closet Designs and Sales	24 hours	3-8 hours	Los Angeles, CA or Virtual Communication Platform
TOTAL	47 – 51 hours	39 – 44 hours	

The Initial Training Program will be supervised by our Co-Chief Executive Officer, Greg Stein, who has 31 years of experience with us and in the subjects taught. Classes will be taught by individuals with 15 or

more years' experience in the field that is relevant to the subject taught and our operations. Instructional materials include the Operations Manual. The Operations Manual contains 150 pages.

We may provide any or all portions of the initial training program, additional and/or refresher training programs, remedial training, pre and post-opening on-site opening assistance, post-opening consultations and/or post-opening inspections remotely over a virtual communication platform designated by us. (Franchise Agreement, Section 5.4).

ITEM 12 TERRITORY

We award you a franchise to operate a single Traditional Closet Factory Outlet at a single location in a Territory. You are granted a Territory defined by geographic boundaries. The dimensions of your Territory are based upon demographic factors, including, population density and size, geography, zoning, market conditions and other factors we believe relevant. There is no standard minimum area.

We will not enter into a Franchise Agreement licensing a Traditional Closet Factory Outlet, or open a Franchisor-owned Traditional Closet Factory Outlet, inside the area (the "Territory") described in Exhibit 2.2 of the Franchise Agreement. Except for operating a Traditional Closet Factory Outlet within the Territory, you have no right to exclude, control or impose conditions on the location or operation of present or future Closet Factory (or any other brand) units or distribution channels of any type, franchised or Closet Factory-owned, regardless of their location or proximity to the Territory. The Franchise does not grant you any rights with respect to other or related businesses, products or services, in which we or any Franchisor Related Persons/Entities may be involved, now or in the future.

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

We and the Franchisor-Related Persons/Entities expressly reserve all other rights, and can (along with anyone we designate):

1) own or operate ourselves, or authorize others to own or operate: (a) any kind of business in the Territory, except for a Traditional Closet Factory Outlet, whether or not using the Closet Factory Marks and Closet Factory System; and (b) any kind of business outside of the Territory including Traditional Closet Factory Outlets, whether or not using the Closet Factory Marks and Closet Factory System.

2) sell Closet Factory brand (or any other brand) Products and Services (whether or not competitive) to customers located anywhere (including within the Territory) using any channel of distribution other than a Traditional Closet Factory Outlet located in the Territory.

3) develop or become associated with other concepts (including dual branding or other franchise systems), whether or not using the Closet Factory System or the Marks, and award franchises under such other concepts for locations anywhere.

4) acquire, be acquired by, merge, affiliate with or engage in any transaction with other businesses (whether competitive or not), with units located anywhere. These transactions may include arrangements involving competing outlets and brand conversions (to or from the Closet Factory Marks and Closet Factory System). You must participate at your expense in any conversion as instructed by us.

5) to allow customers to purchase services and products from us and our affiliates or designees over the Internet, or in other reserved channels of distribution. You must obtain our prior written consent before you advertise or market your Closet Factory Outlet through the use of the Internet, other forms of electronic media (including social technology, social media and social networking platforms), catalog sales, telemarketing or other direct marketing, or we will have the right to terminate your Franchise Agreement. We retain all rights with respect to alternate channels of distribution.

We are not required to pay you any compensation if we exercise any of the rights specified above inside your Territory.

All customer lists and any potential customer leads, however generated, whether by you or us, are our sole property. We may assign potential customer leads to any franchisee in our sole discretion that we believe is capable of servicing that lead. If we assign you a potential customer lead, you may not decline and must pursue and service any such lead. You may not solicit business outside of your Territory without our prior written consent. We have no obligation to pay any compensation for soliciting or accepting orders inside your Territory. You may not use other channels of distribution, such as the Internet, catalog sales, telemarketing, or other direct marketing, to make sales outside of your Territory.

If you are not in Good Standing, we can reduce, eliminate or otherwise modify your territorial rights. The Franchise Agreement does not provide for options, rights-of-first-refusal or similar rights for you to acquire additional franchises.

E-Commerce/Email Business and Special Accounts - Current Policies

You may not use the Internet, World Wide Web, electronic or other means of marketing and distributing our goods or services. You will not market or sell through these venues or any channel of distribution other than your Traditional Closet Factory Outlet without our written permission, which we can grant, condition or deny in our Business Judgment.

You may not deal with Special Accounts specified by us.

We, the Franchisor-Related Persons/Entities and anyone we designate, may offer/provide any Products or Services or otherwise through the Internet, World Wide Web, direct mail or other similar venues (no matter where the Customer is located), whether or not related to any use of the Closet Factory Marks or Closet Factory System.

Relocation

Any relocation of your Closet Factory Outlet: (a) must be to a location within the Territory (unless waived by us); (b) requires our prior written consent, which we can grant, condition or withhold in our Business Judgment (and which may be withheld, in any case, if you are not in Good Standing); (c) will be at your sole expense; and (d) will require that you (and each affiliate and owner of yours) sign a General Release in the form attached to the Franchise Agreement as Exhibit 9.1.

If your Closet Factory Outlet is damaged, condemned or otherwise rendered unusable, or if, in your and our judgment, there is a change in the character of the location of your Closet Factory Outlet sufficiently detrimental to its business potential to warrant its relocation, you must relocate your Closet Factory Outlet.

We may allow you to serve more than one Territory from a single Closet Factory Outlet manufacturing facility or we may require that each Territory that you serve contain a separate manufacturing facility to serve that Territory. You acknowledge and agree that the addition of a manufacturing facility may be a condition of obtaining a successor agreement.

The continuation of your Territory is not dependent upon achievement of a certain sales volume, marketing penetration or other contingency, and your Territory may only be altered by written agreement between us and you. However, if you are not in Good Standing, we can reduce, eliminate or otherwise modify your territorial rights.

We are not currently engaged in the business of selling or franchising others to sell products or services under a different trademark or trade name similar to those offered by you.

General

We have not established other franchises or company-owned outlets or another distribution channel selling or leasing similar products or services under a different trademark. We describe earlier in this Item 12 what we may do anywhere and at any time.

Except for any other franchise program that we may develop in the future, neither we nor any parent or affiliate has established, or presently intends to establish, other franchised or company-owned facilities which provide similar products or services under a different trade name or trademark, but we reserve the right to do so in the future, without first obtaining your consent.

ITEM 13 TRADEMARKS

CFI has registered the "Closet Factory" name on the Principal Register of the United States Patent and Trademark Office ("USPTO"):

Mark	Registration Number	Registration Date
CLOSET FACTORY	1,438,058	April 28, 1987 (Renewed: August 18, 2016)
THE ART OF ORGANIZATION	4,761,674*	June 23, 2015
CLOSET FACTORY	4,862,364	December 1, 2015
FROM SIMPLE TO SPECTACULAR AND EVERYTHING IN-BETWEEN	6,286,042	March 9, 2021

*CFFC owns this mark directly.

We claim common law rights to all trade and service marks that we license to you.

All required affidavits and renewals have been filed or will be filed as appropriate for the above Marks.

On March 2, 2015, we filed an amendment to the wordmark “The Closet Factory” (Registration No. 1,438,058) with the USPTO to amend the Mark to be “Closet Factory”.

Under a license agreement effective December 1, 1985 from CFI, we will grant you the non-exclusive right to use the Marks in the charts above at your approved location in connection with your Closet Factory Outlet. If the license agreement is terminated or expires, you may have to change to alternative trademarks, which may increase your expenses. Since CFI is our affiliate, we do not expect any issue with your use of the Marks because we share the same principals.

There are presently no currently effective determinations of the USPTO, Trademark Trial and Appeal Board, the trademark administrator, of the state in which your Territory will be situated or any court, or any pending infringement, opposition or cancellation proceedings or pending material litigation involving the Marks the use of which is licensed under the Franchise Agreement and which is relevant to use of the Marks in the state in which your Territory will be situated.

You must promptly notify us in writing of any apparent or actual infringement of, or challenge to, your use of the Marks. If there is any infringement of, or challenge to, your use of any of the Marks, we or CFI have sole discretion to take any action as we deem appropriate and are not obligated under the Franchise Agreement to protect your right to use the Marks or to defend or indemnify you if you are sued for infringement or unfair competition because of your use of the Marks.

You must comply at your expense with any directions from us to discontinue, modify, substitute or add Marks. We cannot and do not make any guaranty that a modification, discontinuance or otherwise may not be required for any reason, and we will have no liability or obligation to you. There is always a possibility that there might be one or more businesses using a similar name or marks similar to ours and with superior rights. We urge you to research this possibility, using telephone directories, local filings and other means, before signing the Franchise Agreement.

Except as listed above, there are no agreements currently in effect that significantly limit our right to license you to use the Marks, nor any agreements that would materially affect your right to use the Marks. There are no superior prior rights or infringing uses actually known to us that could materially affect your use of the Marks in this state or in any other state in which the franchise business is to be located.

ITEM 14

PATENTS, COPYRIGHTS AND PROPRIETARY INFORMATION

We have no rights in or licenses to or registered or pending patents that are material to the franchise. We have no registered copyrights, but we claim proprietary rights and common law copyrights in the material maintained in our various business management manuals, instructional materials, proprietary software programs, contracts, marketing and promotional materials and certain other published material.

You will not use any confidential or proprietary information, know-how, processes, formulas, or business methods that have been disclosed to you for any purpose other than the conduct of your Closet Factory Business.

You will be required to sign a confidentiality and nondisclosure agreement in consideration of your training by us. (Exhibit C).

You may not engage in any co-branding in or in connection with your Closet Factory Outlet, except with our prior written consent. We are not required to approve any co-branding chain or arrangement except in our discretion, and only if we have recognized that co-branding chain as an approved co-brand for operation within the Closet Factory Outlet. "Co-branding" includes the operation of an independent business, product line or operating system owned or licensed by another entity (not us) that is featured or incorporated within the Closet Factory Outlet or in connection with the Closet Factory Outlet and operated in a manner which is likely to cause the public to perceive it to be related to the Closet Factory Outlet licensed and franchised under the Franchise Agreement.

All ideas, concepts, techniques or materials relating to a Closet Factory Outlet created by you while you are a Closet Factory franchisee, whether or not protectable intellectual property (an "Improvement"), must be promptly disclosed to us and will become our exclusive property and a part of the Closet Factory System as a work made for hire for us without compensation to you.

ITEM 15 OBLIGATION TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS

You must keep us advised, in writing, of all management and non-management personnel involved in the operation or otherwise of your Closet Factory Outlet. Your Closet Factory Outlet must be personally managed on a full-time basis by a supervisory or managerial employee who has successfully completed mandatory training and met our then-current standards. We strongly recommend full term on-site management by you, since absentee management involves a greater risk of failure.

You are solely responsible for the hiring and management of your Closet Factory Outlet employees, for the terms of their employment and for ensuring their compliance with any of our training or other employment related requirements. If you must replace your Designated Manager, the new manager must be located by you, and must complete the initial training program, all within 90 days after the departure of the former Designated Manager.

We have the right to deal with the Designated Manager regarding routine operations and reporting requirements. It is your responsibility to keep all records for your Closet Factory Outlet current. We do not require your Designated Manager to have an equity interest in the franchise. Your Designated Manager must sign a Confidentiality and Nondisclosure Agreement. If you are an entity, all present and future owners of the equity or your voting rights, including spouses and domestic partners, must execute a written Guarantee in a form we prescribe, personally, irrevocably and unconditionally guaranteeing, jointly and severally, with all other guarantors, the full payment and performance of your obligations to us. Upon each transfer or assignment of your interest in your Franchise Agreement, or other change in your ownership interests, and at any other time we request, these holders must re-execute a written Guarantee in a form we prescribe.

ITEM 16 RESTRICTIONS ON WHAT THE FRANCHISEE MAY SELL

We may specify products you must carry and services you must provide. We have the right to change the types of products and services offered by you. See Item 8 above.

You must do business only at your Closet Factory Outlet. You must not conduct any other business at your Closet Factory Outlet. You must carry the full range of authorized products and services designated by us. We may allow you to serve more than one territory from a single Closet Factory Outlet manufacturing facility or we may require that each territory that you serve contain a separate manufacturing facility to serve that territory.

ITEM 17

RENEWAL, TERMINATION, TRANSFER AND DISPUTE RESOLUTION

This table lists certain important provisions of the franchise and related agreements. You should read these provisions in the agreement attached to this Disclosure Document.

THE FRANCHISE RELATIONSHIP

Provision	Section in Franchise Agreement	Summary
a. Length of the franchise term	2.1	5 years beginning the date the Franchise Agreement is signed.
b. Renewal or extension of the term	2.1, 15.1	You have the right to renew for successive terms of 5 years each.
c. Requirements for you to renew or extend	15.2 - 15.4	You may be eligible to be awarded a Successor franchise at the end of the term of the franchise. The Successor Franchise Agreement may differ materially from your current Agreement in financial and other ways. Compliance with the Franchise and all other agreements; compliance with current operational, qualification and training requirements; notice of election to renew; satisfaction of monetary obligations; sign new agreement and General Release; and payment of \$7,000 renewal fee. If your Agreement expires without being extended by a successor agreement or otherwise, we may allow you to continue operating your Closet Factory Outlet in Holdover Status under the terms of your current Agreement, except for the special minimum continuing royalty and higher royalty percentage amount required during the holdover period.
d. Termination by you	Not Applicable	Not Applicable (subject to state law)
e. Termination by us without cause	Not Applicable	Not Applicable
f. Termination by us with cause	16.1 – 16.4	We can terminate you if you commit any one of several listed violations (subject to state law)
g. "Cause" defined- curable defaults	16.2, 16.4	All other defaults not specified in 16.1 and 16.3 (subject to state law).
h. "Cause" defined-non-curable defaults	16.1, 16.3	You fail to meet site selection, opening and other requirements; abandon or fail to operate your Closet Factory Outlet for more than 5 consecutive days; surrender or transfer control of business; make any misrepresentations or omissions by you; file for bankruptcy; are convicted of felony; engage in misconduct which unfavorably affects the reputation of the business; make

Provision	Section in Franchise Agreement	Summary
		an unauthorized transfer of business; make an unauthorized use of Trademarks or disclose confidential information or violate restrictions on ownership or operation of a Similar Business; misrepresent the Gross Receipts or other amounts due; commit any act or omission of fraud or misrepresentation related to us or any affiliate and/or the Marketing Fund and/or any FMG; receive 5 or more material customer complaints in any 12 month period, whether or not resolved; fail to cooperate with audit or retain records; violate any law applicable to the operating of the franchise; or commit repeated defaults (subject to state law).
i. Your obligations on termination/non-renewal	17.1 - 17.4	Cease operations; cease use of Marks; de-identify business and remove signage; pay amounts owed; return Operations Manual and materials; transfer phone numbers and electronic listings to us or our designee; cancel all fictitious business name registrations. Certain obligations continue, including payment, indemnity, non-competition and confidentiality.
j. Assignment of contract by us	14.1	No restrictions on our right to transfer the Franchise Agreement; upon transfer we have no further obligations.
k. "Transfer" by you-definition	14.2	Includes any voluntary or involuntary assignment, sale, gift, pledge or any grant of any security or other interest (partial or whole, direct or indirect), by you.
l. Our approval of transfer by you	14.2 - 14.3	Transfer subject to our consent.
m. Conditions for our approval of transfer	14.3 - 14.4	You must comply with all agreements with us and Franchisor's affiliates, all leases and sublease with any party, and the Operations Manual and all reporting and payment obligations; Transferee qualifies and assumes your obligations; Closet Factory Outlet must meet specifications and standards and all promissory notes must be paid in full; Transferee completes training program; Transferee must meet our citizenship, literacy and communication requirements; execution of Franchise Agreement and ancillary documents by transferee, including a guarantee executed by transferee's owners and spouses or domestic partners; payment of \$18,500 transfer fee; execution of release; amount financed subordinate to obligations of transferee to us; execution of non-competition agreement; transfer in compliance with applicable leases, laws and regulations; and transfer conditional on continuing indemnification and other surviving obligations. Additional requirements for transfer to a controlled corporation.
n. Our right of first refusal to acquire your business	14.7	We have right to match offer; required terms and conditions.
o. Our option to purchase your business	14.8	We have a limited right to purchase your business, and its assets. We must give you written notice within 120 days of the Termination/expiration of the Franchise Agreement.

Provision	Section in Franchise Agreement	Summary
p. Your death or disability	14.5	Transfer to third party within 6 months. Subject to all transfer requirements and restrictions. We may operate the Closet Factory Outlet on your behalf and at your expense for a period of time.
q. Non-competition covenants during the term	8.2A	No involvement in Similar Business anywhere (subject to state law).
r. Non-competition covenants after the franchise is terminated or expires	8.2 B and C, 17.4, 19.6	Subject to state law, no competing business for 2 years anywhere; no solicitation, diversion or acceptance of Closet Factory customers or potential customers for 2 years. If you violate the post-term covenant not to compete, you must pay us, throughout the 2 year period following the termination, transfer, or expiration of your Franchise Agreement, 5% of all revenue derived from the operation of the Similar Business, including the sale of all products and services and all other income of the business that offers goods or services at or from the Similar Business, which are the same as or similar to the Closet Factory Outlets.
s. Modification of the agreement	19.1 D., 19.8	Agreement may be modified in writing by all parties. The Operations Manual and Closet Factory System are subject to change by us and you must promptly comply. Invalid or unenforceable provision is modified to the extent required to be valid and enforceable and you and we are bound by the modified provisions.
t. Integration/merger clause	21	Subject to state law, only the terms of the Franchise Agreement and its exhibits are binding). Any representations or promises outside of the Disclosure Document and the Franchise Agreement and its exhibits may not be enforceable.
u. Dispute resolution by arbitration or mediation	19.1 – 19.5	Subject to state law, except for a few types of equitable claims, all disputes are resolved through face-to-face meeting, mediation, or binding arbitration; limited rights of appeal and pre-trial discovery; and limitation of types and amount of damages.
v. Choice of forum	19.2 B., 19.3	Subject to state law, mediation, arbitration at a neutral location in the county where our then-current headquarters is located, which is currently Los Angeles, California. Litigation in the U.S. District Court encompassing our headquarters. Please see the state-specific addenda to the Disclosure Document and Franchise Agreements in <u>Exhibit F</u> .
w. Choice of law	19.12	Subject to state law, laws of the state where the Closet Factory Business is located applies, but the Federal Arbitration Act preempts state law. Please see the state-specific addenda to the Disclosure Document and Franchise Agreements in <u>Exhibit F</u> .

ITEM 18
PUBLIC FIGURES

We currently do not use any public figure to promote our franchise.

ITEM 19
FINANCIAL PERFORMANCE REPRESENTATIONS

The FTC's Franchise Rule permits us to provide information about actual or potential financial performance of our franchised or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the Disclosure Document. Financial performance information that differs from that included in Item 19 may be given only if: (1) we provide the actual records of an existing outlet you are considering buying; or (2) we supplement the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

Written substantiation for the financial performance representations made in this Item 19 will be made available to you upon reasonable request.

Some Closet Factory Businesses have earned these amounts. Your individual results may differ. There is no assurance you'll earn as much.

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2024 TABLE 1
TOTAL GROSS SALES AT 47 FRANCHISED CLOSET FACTORY BUSINESSES
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2024 (NOTES 1 – 2)

Number of Franchised Closet Factory Businesses (Note 1)	Total Gross Sales of Franchised Closet Factory Businesses (Note 2)	Highest/Lowest Gross Sales (Note 2)	Average Gross Sales of Franchised Closet Factory Businesses (Note 2)	Median Gross Sales of Franchised Closet Factory Businesses (Note 2)
47	\$286,561,735	\$39,149,176/ \$350,963	\$6,097,058	\$4,618,860

2024 TABLE 2
GROSS SALES AT 47 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2024 (NOTES 1, 3–4)

FIRST QUARTILE		SECOND QUARTILE		THIRD QUARTILE		FOURTH QUARTILE	
Franchised Business (Note 1)	Annual Gross Sales (Notes 3, 4)	Franchised Business (Note 1)	Annual Gross Sales (Notes 3, 4)	Franchised Business (Note 1)	Annual Gross Sales (Notes 3, 4)	Franchised Business (Note 1)	Annual Gross Sales (Notes 3, 4)
9001*	\$39,149,176	8001****	\$7,504,672	7001**	\$4,491,907	6001*	\$2,128,714
9002**	\$20,773,087	8002*	\$7,252,592	7002**	\$4,050,060	6002*	\$2,009,750
9003****	\$16,888,991	8003*	\$6,707,192	7003*	\$3,824,252	6003*	\$1,804,804
9004**	\$12,719,960	8004*	\$6,434,908	7004*	\$3,792,858	6004*	\$1,466,896
9005*	\$11,378,162	8005*	\$6,430,345	7005*	\$3,681,534	6005*	\$1,378,480
9006*****	\$10,135,279	8006*	\$6,120,947	7006**	\$3,305,789	6006*	\$1,363,713
9007***	\$9,842,921	8007**	\$5,744,010	7007*	\$3,273,093	6007*	\$1,010,798
9008**	\$9,696,055	8008*	\$5,352,724	7008**	\$3,086,133	6008*	\$873,274

FIRST QUARTILE		SECOND QUARTILE		THIRD QUARTILE		FOURTH QUARTILE	
Franchised Business (Note 1)	Annual Gross Sales (Notes 3, 4)	Franchised Business (Note 1)	Annual Gross Sales (Notes 3, 4)	Franchised Business (Note 1)	Annual Gross Sales (Notes 3, 4)	Franchised Business (Note 1)	Annual Gross Sales (Notes 3, 4)
9009***	\$8,709,306	8009*	\$5,003,778	7009**	\$2,817,249	6009*	\$757,819
9010**	\$7,870,849	8010***	\$4,624,102	7010**	\$2,582,204	6010*	\$549,438
9011*	\$7,842,463	8011***	\$4,618,860	7011*	\$2,481,568	6011**	\$350,963
9012*	\$7,805,601	8012**	\$4,514,018	7012*	\$2,360,441		
TOTAL	\$162,811,851	TOTAL	\$70,308,148	TOTAL	\$39,747,088	TOTAL	\$13,694,649
AVERAGE (Notes 3, 4)	\$13,567,654	AVERAGE (Notes 3, 4)	\$5,859,012	AVERAGE (Notes 3, 4)	\$3,312,257	AVERAGE (Notes 3, 4)	\$1,244,968
MEDIAN (Note 3, 4)	\$9,989,100	MEDIAN (Note 3, 4)	\$5,932,479	MEDIAN (Note 3, 4)	\$3,289,441	MEDIAN (Note 3, 4)	\$1,363,713

* These territory numbers represent 1 territory

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2024 TABLE 3

SALES DATA AT 47 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2024 (NOTES 1, 3, 5)

	FIRST QUARTILE	SECOND QUARTILE	THIRD QUARTILE	FOURTH QUARTILE
Total Gross Sales (Note 3)	\$162,811,851	\$70,308,148	\$39,747,088	\$13,694,649
Average Sales Data (Note 5)	\$13,567,654	\$5,859,012	\$3,312,257	\$1,244,968
Lowest Sales Data (Note 5)	\$7,805,601	\$4,514,018	\$2,360,441	\$350,963
Highest Sales Data (Note 5)	\$39,149,176	\$7,504,672	\$4,491,907	\$2,128,714
Median Sales Data (Note 5)	\$9,989,100	\$5,932,479	\$3,289,441	\$1,244,968

2024 TABLE 4
SALES PER OPPORTUNITY AT 47 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2024 (NOTES 1, 3, 6)

	FIRST QUARTILE	SECOND QUARTILE	THIRD QUARTILE	FOURTH QUARTILE
Total Gross Sales (Note 3)	\$162,811,851	\$70,308,148	\$39,747,088	\$13,694,649
Average Sales Per Opportunity (Note 6)	\$4,946	\$3,956	\$3,730	\$3,575
Lowest Sales Per Opportunity (Note 6)	\$3,828	\$3,047	\$2,305	\$2,736
Highest Sales Per Opportunity (Note 6)	\$6,161	\$4,981	\$5,454	\$5,161
Median Sales Per Opportunity (Note 6)	\$4,640	\$3,961	\$3,913	\$3,978

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2023 TABLE 1
TOTAL GROSS SALES AT 47 FRANCHISED CLOSET FACTORY BUSINESSES
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2023 (NOTES 7 – 8)

Number of Franchised Closet Factory Businesses (Note 7)	Total Gross Sales of Franchised Closet Factory Businesses (Note 8)	Highest/Lowest Gross Sales (Note 8)	Average Gross Sales of Franchised Closet Factory Businesses (Note 8)	Median Gross Sales of Franchised Closet Factory Businesses (Note 8)
47	\$253,329,816	\$35,274,609/ \$420,097	\$5,399,421	\$4,076,527

2023 TABLE 2
GROSS SALES AT 47 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2023 (NOTES 7, 9-10)

FIRST QUARTILE		SECOND QUARTILE		THIRD QUARTILE		FOURTH QUARTILE	
Franchised Business (Note 7)	Annual Gross Sales (Notes 9, 10)	Franchised Business (Note 7)	Annual Gross Sales (Notes 9,10)	Franchised Business (Note 7)	Annual Gross Sales (Notes 9,10)	Franchised Business (Note 7)	Annual Gross Sales (Notes 9,10)
4030*	\$35,274,609	3030*	\$5,915,425	2030**	\$3,590,104	1030**	\$2,058,898
4031**	\$18,730,349	3031*	\$5,809,996	2031*	\$3,430,689	1031*	\$1,897,330
4032****	\$13,536,451	3032*	\$5,450,073	2032*	\$3,278,633	1032*	\$1,882,787
4033**	\$11,236,316	3033*	\$5,422,082	2033*	\$3,233,193	1033*	\$1,360,496
4034*	\$10,909,175	3034**	\$5,399,889	2034**	\$3,135,461	1034*	\$1,148,045
4035*****	\$9,062,375	3035*	\$5,355,358	2035*	\$3,102,351	1035*	\$1,071,623
4036***	\$8,500,954	3036*	\$5,206,871	2036*	\$3,083,879	1036*	\$1,042,541
4037**	\$8,490,311	3037**	\$5,131,880	2037**	\$3,027,183	1037*	\$740,458

FIRST QUARTILE		SECOND QUARTILE		THIRD QUARTILE		FOURTH QUARTILE	
Franchised Business (Note 7)	Annual Gross Sales (Notes 9, 10)	Franchised Business (Note 7)	Annual Gross Sales (Notes 9,10)	Franchised Business (Note 7)	Annual Gross Sales (Notes 9,10)	Franchised Business (Note 7)	Annual Gross Sales (Notes 9,10)
4038*	\$8,317,549	3038*	\$4,665,593	2038**	\$2,946,713	1038*	\$552,708
4039***	\$8,273,828	3039*	\$4,359,289	2039**	\$2,174,473	1039*	\$551,251
4040****	\$7,063,236	3040**	\$4,233,126	2040*	\$2,187,987	1040*	\$514,600
4041*	\$6,633,216	3041***	\$3,920,365			1041*	\$420,097
TOTAL	\$146,028,369	TOTAL	\$60,869,947	TOTAL	\$33,190,666	TOTAL	\$13,240,834
AVERAGE (Notes 9, 10)	\$12,169,031	AVERAGE (Notes 9, 10)	\$5,072,496	AVERAGE (Notes 9, 10)	\$3,017,333	AVERAGE (Notes 9, 10)	\$1,103,403
MEDIAN (Notes 9, 10)	\$8,781,665	MEDIAN (Notes 9, 10)	\$5,281,115	MEDIAN (Notes 9, 10)	\$3,102,351	MEDIAN (Notes 9, 10)	\$1,057,082

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2023 TABLE 3
SALES DATA AT 47 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2023 (NOTES 7, 9, 11)

	FIRST QUARTILE	SECOND QUARTILE	THIRD QUARTILE	FOURTH QUARTILE
Total Gross Sales (Note 9)	\$146,028,369	\$60,869,947	\$33,190,666	\$13,240,834
Average Sales Data (Note 11)	\$12,169,031	\$5,072,496	\$3,017,333	\$1,103,403
Lowest Sales Data (Note 11)	\$6,633,216	\$3,920,365	\$2,187,987	\$420,097

Highest Sales Data (Note 11)	\$35,274,609	\$5,915,425	\$3,590,104	\$2,058,898
Median Sales Data (Note 11)	\$8,781,665	\$5,281,115	\$3,012,351	\$1,057,082

2023 TABLE 4
SALES PER OPPORTUNITY AT 47 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2023 (NOTES 7, 9, 12)

	FIRST QUARTILE	SECOND QUARTILE	THIRD QUARTILE	FOURTH QUARTILE
Total Gross Sales (Note 9)	\$146,028,369	\$60,869,947	\$33,190,666	\$13,240,834
Average Sales Per Opportunity (Note 12)	\$4,748	\$3,948	\$3,647	\$3,364
Lowest Sales Per Opportunity (Note 12)	\$3,457	\$3,296	\$2,817	\$2,326
Highest Sales Per Opportunity (Note 12)	\$5,946	\$4,522	\$6,629	\$4,684
Median Sales Per Opportunity (Note 12)	\$4,425	\$4,119	\$3,361	\$3,337

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2022 TABLE 1
TOTAL GROSS SALES AT 41 FRANCHISED CLOSET FACTORY BUSINESSES
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2022 (NOTES 13 – 14)

Number of Franchised Closet Factory Businesses (Note 13)	Total Gross Sales of Franchised Closet Factory Businesses (Note 14)	Highest/Lowest Gross Sales (Note 14)	Average Gross Sales of Franchised Closet Factory Businesses (Note 14)	Median Gross Sales of Franchised Closet Factory Businesses (Note 14)
41	\$242,316,313	\$34,197,431/\$329,271	\$5,910,153	\$4,237,517

2022 TABLE 2
GROSS SALES AT 41 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2022 (NOTES 13, 15–16)

FIRST QUARTILE		SECOND QUARTILE		THIRD QUARTILE		FOURTH QUARTILE	
Franchised Business (Note 13)	Annual Gross Sales (Notes 15, 16)	Franchised Business (Note 13)	Annual Gross Sales (Notes 15, 16)	Franchised Business (Note 13)	Annual Gross Sales (Notes 15, 16)	Franchised Business (Note 13)	Annual Gross Sales (Notes 15, 16)
4010*	\$34,197,431	3010**	\$7,185,571	2010***	\$4,237,517	1010*	\$2,565,343
4011**	\$20,059,878	3011*	\$6,697,474	2011**	\$4,112,421	1011*	\$2,524,437
4012****	\$14,811,126	3012****	\$6,427,988	2012*	\$4,084,858	1012*	\$2,347,177
4013	\$11,149,162	3013*	\$6,030,654	2013*	\$4,011,909	1013*	\$2,047,818
4014**	\$10,438,463	3014*	\$5,525,544	2014**	\$3,835,620	1014*	\$2,041,741
4015***	\$9,799,799	3015*	\$5,243,901	2015**	\$3,627,873	1015**	\$1,994,655
4016*****	\$9,310,188	3016*	\$4,944,863	2016*	\$3,542,469	1016*	\$1,481,103
4017***	\$8,177,396	3017*	\$4,942,472	2017*	\$3,068,991	1017*	\$900,124

FIRST QUARTILE		SECOND QUARTILE		THIRD QUARTILE		FOURTH QUARTILE	
Franchised Business (Note 13)	Annual Gross Sales (Notes 15, 16)	Franchised Business (Note 13)	Annual Gross Sales (Notes 15, 16)	Franchised Business (Note 13)	Annual Gross Sales (Notes 15, 16)	Franchised Business (Note 13)	Annual Gross Sales (Notes 15, 16)
4018*	\$7,349,107	3018**	\$4,916,208	2018**	\$2,921,182	1018*	\$778,090
4019*	\$7,281,180	3019*	\$4,345,281	2019**	\$2,642,784	1019*	\$387,244
						1020	\$329,271
TOTAL	\$132,573,730	TOTAL	\$56,259,956	TOTAL	\$36,085,624	TOTAL	\$17,397,003
AVERAGE (Notes 15, 16)	\$13,257,373	AVERAGE (Notes 15, 16)	\$5,625,995	AVERAGE (Notes 15, 16)	\$3,608,562	AVERAGE (Notes 15, 16)	\$1,739,700
MEDIAN (Notes 15, 16)	\$10,119,131	MEDIAN (Notes 15, 16)	\$5,384,722	MEDIAN (Notes 15, 16)	\$3,731,746	MEDIAN (Notes 15, 16)	\$1,994,655

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2022 TABLE 3
SALES DATA AT 41 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE
OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2022 (NOTES 13, 15, 17)

	FIRST QUARTILE	SECOND QUARTILE	THIRD QUARTILE	FOURTH QUARTILE
Total Gross Sales (Note 15)	\$132,573,730	\$56,259,956	\$36,085,624	\$17,397,003
Average Sales Data (Note 17)	\$13,257,373	\$5,625,995	\$3,608,562	\$1,739,700
Lowest Sales Data (Note 17)	\$7,281,180	\$4,345,281	\$2,642,784	\$329,271
Highest Sales Data (Note 17)	\$34,197,431	\$7,185,571	\$4,237,517	\$2,565,343
Median Sales Data (Note 17)	\$10,119,131	\$5,384,722	\$3,731,746	\$4,036,396

2022 TABLE 4
 SALES PER OPPORTUNITY AT 41 FRANCHISED CLOSET FACTORY BUSINESSES BROKEN DOWN BY QUARTILE
 OPEN MORE THAN ONE YEAR ON DECEMBER 31, 2022 (NOTES 13, 15, 18)

	FIRST QUARTILE	SECOND QUARTILE	THIRD QUARTILE	FOURTH QUARTILE
Total Gross Sales (Note 15)	\$132,573,730	\$56,259,956	\$36,085,624	\$17,397,003
Average Sales Per Opportunity (Note 18)	\$4,432	\$3,814	\$3,735	\$4,449
Lowest Sales Per Opportunity (Note 18)	\$3,285	\$3,118	\$2,527	\$2,844
Highest Sales Per Opportunity (Note 18)	\$5,981	\$4,764	\$4,979	\$8,492
Median Sales Per Opportunity (Note 18)	\$4,330	\$3,699	\$3,591	\$3,992

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NOTE 1:

There were a total of 47 franchised Closet Factory Franchised Businesses owned and operated by our franchisees for at least one year as of December 31, 2024. All franchised 47 Closet Factory Franchised Businesses are included in 2024 Tables 1 through 4. All 47 franchised Closet Factory Franchised Businesses included in 2024 Tables 1 through 4 were open and operating for more than one year as of December 31, 2024. 2024 Tables 1 through 4 do not include 1 franchised Closet Factory Franchised Business that closed during the fiscal year ended December 31, 2024. For the purposes of this Item 19, a Closet Factory Business refers to the umbrella business formed and operated by each Closet Factory franchisee. In many cases, a single Closet Factory Business will comprise of multiple territories individually purchased by a franchisee and governed by their own respective franchise agreement. The Closet Factory Businesses in 2024 Table 2 are identified by territory numbers and the following territory numbers represent multiple territories, as follows: (i) 9002, 9004, 9010, 8007, 8012, 7001, 7002, 7006, 7008, 7009, 7010 and 6011 represent a total of 2 territories each; (ii) 9007, 9009, 8010 and 8011 represent a total of 3 territories each; (iii) 9003 and 8001 represents a total of 4 territories each; and (iv) 9006 represents a total of 5 territories. The territory numbers for the Closet Factory Businesses identified in 2024 Table 2, in 2023 Table 2 and in 2022 Table 2 are not uniformly identified each year. Financial performance information regarding the 6 non-franchised Closet Factory Businesses owned and operated by our affiliate CFI is not included in this Item 19 disclosure.

2024 Tables 1 through 4 above are limited to actual historical unaudited information provided to us by our franchisees for franchised Closet Factory Businesses were open for business for at least one year on December 31, 2024. The financial performance representations that appear in 2024 Tables 1 through 4 above do not include costs of sales, operating expenses or other costs or expenses that must be deducted from Gross Sales to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating Closet Factory Business. Franchisees or former franchisees listed in this Disclosure Document may be one source of this information. All of these franchised Closet Factory Businesses are operations similar to the franchise offered in this Disclosure Document.

NOTE 2:

“Gross Sales” means the aggregate of all revenues which are received by each Closet Factory Franchised Business included in 2024 Table 1, whether evidenced by cash, services, property, barter, or other means of exchange. Gross Sales excludes the sales tax collected, customer refunds, adjustments and credits.

“Average” means the aggregate Gross Sales divided by the total number of franchised Closet Factory Franchised Businesses included in 2024 Table 1. Of the 47 franchised Closet Factory Franchised Businesses included in 2024 Table 1, 47 or 100%, had annual Gross Sales above the annual Average Gross Sales of \$6,097,058 in 2024 Table 1.

“Median” means the midpoint dollar value for the 47 franchised Closet Factory Franchised Businesses included in 2024 Table 1.

NOTE 3:

2024 Table 2 sets forth all 47 franchised Closet Factory Franchised Businesses’ Gross Sales for the year ending December 31, 2024 categorized into quarters based on Gross Sales (“Quartiles”).

The total “Gross Sales” per Quartile means the aggregate of all revenues which are received by each Closet Factory Franchised Business in each Quartile, whether evidenced by cash, services, property, barter, or other means of exchange. Gross Sales excludes the sales tax collected, customer refunds, adjustments and credits.

The “Average Gross Sales” per Quartile was calculated by taking the sum of the Annual Gross Sales of the Closet Factory Franchised Businesses in each Quartile and dividing it by the total number of Closet Factory Franchised Businesses in each Quartile.

The “Median Gross Sales” per Quartile means the midpoint dollar value for the Closet Factory Franchised Businesses in each Quartile. If values are presented for an even number of Closet Factory Franchised Businesses, the Median is determined by taking the mean (average) of the two middlemost values, which is reached by adding those two values together and then dividing the aggregate by two.

NOTE 4:

Of the 12 franchised Closet Factory Franchised Businesses included in 2024 Table 2, First Quartile, 3 or 25% had Gross Sales that were greater than the Average Gross Sales of \$13,567,654 for the First Quartile.

Of the 12 franchised Closet Factory Franchised Businesses included in 2024 Table 2, Second Quartile, 6 or 50% had Gross Sales that were greater than the Average Gross Sales of \$5,859,012 for the Second Quartile.

Of the 12 franchised Closet Factory Franchised Businesses included 2024 Table 2, Third Quartile, 5 or 42% had Gross Sales that were greater than the Average Gross Sales of \$3,312,257 for the Third Quartile.

Of the 11 franchised Closet Factory Franchised Businesses included in 2024 Table 2, Fourth Quartile, 6 or 50% had Gross Sales that were greater than the Average Gross Sales of \$1,244,968 for the Fourth Quartile.

NOTE 5:

2024 Table 3 sets forth all 47 franchised Closet Factory Franchised Businesses’ Average Sales Data for the year ending December 31, 2024 categorized into Quartiles.

The “Average Sales Data” per Quartile is the total aggregate dollar value of Gross Sales per Quartile divided by the total number of new orders per Quartile. A “new order” occurs when a contract is signed and a deposit is made by a client to a Closet Factory Business.

The “Median Sales Data” per Quartile is the midpoint dollar value for the Closet Factory Businesses in each Quartile.

NOTE 6:

2024 Table 4 sets forth all 47 franchised Closet Factory Franchised Businesses’ Average Sales Per Opportunity Data for the year ending December 31, 2024 categorized into Quartiles.

The “Average Sales Per Opportunity” per Quartile is the total aggregate dollar value of Gross Sales per Quartile divided by the total number of customer appointments per Quartile. A “customer appointment” is the initial consultation with a client to discuss a project. The “Median Sales Per Opportunity” per Quartile is the midpoint dollar value for the Closet Factory Businesses in each Quartile.

NOTE 7:

There were a total of 47 franchised Closet Factory Franchised Businesses owned and operated by our franchisees for at least one year as of December 31, 2023. All franchised 47 Closet Factory Franchised Businesses are included in 2023 Tables 1 through 4. All 47 franchised Closet Factory Franchised Businesses included in 2023 Tables 1 through 4 were open and operating for more than one year as of December 31, 2023. 2023 Tables 1 through 4 do not include 1 franchised Closet Factory Franchised Business that closed during the fiscal year ended December 31, 2023. For the purposes of this Item 19, a Closet Factory Business refers to the umbrella business formed and operated by each Closet Factory franchisee. In many cases, a single Closet Factory Business will comprise of multiple territories individually purchased by a franchisee and governed by their own respective franchise agreement. The Closet Factory Businesses in 2023 Table 2 are identified by territory numbers and the following territory numbers represent multiple territories, as follows: (i) 4031, 4033, 4037, 3034, 3037, 3040, 2030, 2034, 2037, 2038, 2039, and 1030 represent a total of 2 territories each; (ii) 4036, 4039, and 3041 and represent a total of 3 territories each; (iii) 4032 and 4040 represents a total of 4 territories each; and (iv) 4035 represents a total of 5 territories. The territory numbers for the Closet Factory Businesses identified in 2024 Table 2, in 2023 Table 2 and in 2022 Table 2 are not uniformly identified each year. Financial performance information regarding the 6 non-franchised Closet Factory Businesses owned and operated by our affiliate CFI is not included in this Item 19 disclosure.

2023 Tables 1 through 4 above are limited to actual historical unaudited information provided to us by our franchisees for franchised Closet Factory Businesses were open for business for at least one year on December 31, 2023. The financial performance representations that appear in 2023 Tables 1 through 4 above do not include costs of sales, operating expenses or other costs or expenses that must be deducted from Gross Sales to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating Closet Factory Business. Franchisees or former franchisees listed in this Disclosure Document may be one source of this information. All of these franchised Closet Factory Businesses are operations similar to the franchise offered in this Disclosure Document.

NOTE 8:

“Gross Sales” means the aggregate of all revenues which are received by each Closet Factory Franchised Business included in 2023 Table 1, whether evidenced by cash, services, property, barter, or other means of exchange. Gross Sales excludes the sales tax collected, customer refunds, adjustments and credits.

“Average” means the aggregate Gross Sales divided by the total number of franchised Closet Factory Franchised Businesses included in 2023 Table 1. Of the 47 franchised Closet Factory Franchised Businesses included in 2023 Table 1, 17 or 36%, had annual Gross Sales above the annual Average Gross Sales of \$5,399,421 in 2023 Table 1.

“Median” means the midpoint dollar value for the 47 franchised Closet Factory Franchised Businesses included in 2023 Table 1.

NOTE 9:

2023 Table 2 sets forth all 47 franchised Closet Factory Franchised Businesses’ Gross Sales for the year ending December 31, 2023 categorized into quarters based on Gross Sales (“Quartiles”).

The total “Gross Sales” per Quartile means the aggregate of all revenues which are received by each Closet Factory Franchised Business in each Quartile, whether evidenced by cash, services, property, barter, or other means of exchange. Gross Sales excludes the sales tax collected, customer refunds, adjustments and credits.

The “Average Gross Sales” per Quartile was calculated by taking the sum of the Annual Gross Sales of the Closet Factory Franchised Businesses in each Quartile and dividing it by the total number of Closet Factory Franchised Businesses in each Quartile.

The “Median Gross Sales” per Quartile means the midpoint dollar value for the Closet Factory Franchised Businesses in each Quartile. If values are presented for an even number of Closet Factory Franchised Businesses, the Median is determined by taking the mean (average) of the two middlemost values, which is reached by adding those two values together and then dividing the aggregate by two.

NOTE 10:

Of the 12 franchised Closet Factory Franchised Businesses included in 2023 Table 2, First Quartile, 3 or 25% had Gross Sales that were greater than the Average Gross Sales of \$12,169,031 for the First Quartile.

Of the 12 franchised Closet Factory Franchised Businesses included in 2023 Table 2, Second Quartile, 8 or 67% had Gross Sales that were greater than the Average Gross Sales of \$5,072,496 for the Second Quartile.

Of the 11 franchised Closet Factory Franchised Businesses included 2023 Table 2, Third Quartile, 8 or 73% had Gross Sales that were greater than the Average Gross Sales of \$3,017,333 for the Third Quartile.

Of the 12 franchised Closet Factory Franchised Businesses included in 2023 Table 2, Fourth Quartile, 5 or 42% had Gross Sales that were greater than the Average Gross Sales of \$1,103,403 for the Fourth Quartile.

NOTE 11:

2023 Table 3 sets forth all 47 franchised Closet Factory Franchised Businesses’ Average Sales Data for the year ending December 31, 2023 categorized into Quartiles.

The “Average Sales Data” per Quartile is the total aggregate dollar value of Gross Sales per Quartile divided by the total number of new orders per Quartile. A “new order” occurs when a contract is signed and a deposit is made by a client to a Closet Factory Business.

The “Median Sales Data” per Quartile is the midpoint dollar value for the Closet Factory Businesses in each Quartile.

NOTE 12:

2023 Table 4 sets forth all 47 franchised Closet Factory Franchised Businesses’ Average Sales Per Opportunity Data for the year ending December 31, 2023 categorized into Quartiles.

The “Average Sales Per Opportunity” per Quartile is the total aggregate dollar value of Gross Sales per Quartile divided by the total number of customer appointments per Quartile. A “customer appointment” is the initial consultation with a client to discuss a project. The “Median Sales Per Opportunity” per Quartile is the midpoint dollar value for the Closet Factory Businesses in each Quartile.

NOTE 13:

There were a total of 41 franchised Closet Factory Franchised Businesses owned and operated by our franchisees for at least one year as of December 31, 2022. All franchised 41 Closet Factory Franchised Businesses are included in 2022 Tables 1 through 4. All 41 franchised Closet Factory Franchised Businesses included in 2022 Tables 1 through 4 were open and operating for more than one year as of December 31, 2022. 2022 Tables 1 through 4 do not include 1 franchised Closet Factory Franchised Business that closed during the fiscal year ended December 31, 2022. For the purposes of this Item 19, a Closet Factory Business refers to the umbrella business formed and operated by each Closet Factory franchisee. In many cases, a single Closet Factory Business will comprise of multiple territories individually purchased by a franchisee and governed by their own respective franchise agreement. The Closet Factory Businesses in 2022 Table 2 are identified by territory numbers and the following territory numbers represent multiple territories, as follows: (i) 4011, 4014, 3010, 3018, 2011, 2013, 2014, 2015, 2018, 2019 and 1015 represent a total of 2 territories each; (ii) 4015, 4017 and 2010 represent a total of 3 territories each; (iii) 4012 and 3012 represents a total of 4 territories each; and (iv) 4016 represents a total of 5 territories. The territory numbers for the Closet Factory Businesses identified in 2024 Table 2, in 2023 Table 2 and in 2022 Table 2 are not uniformly identified each year. Financial performance information regarding the 6 non-franchised Closet Factory Businesses owned and operated by our affiliate CFI is not included in this Item 19 disclosure.

2022 Tables 1 through 4 above are limited to actual historical unaudited information provided to us by our franchisees for franchised Closet Factory Businesses were open for business for at least one year on December 31, 2022. The financial performance representations that appear in 2022 Tables 1 through 4 above do not include costs of sales, operating expenses or other costs or expenses that must be deducted from Gross Sales to obtain your net income or profit. You should conduct an independent investigation of the costs and expenses you will incur in operating Closet Factory Business. Franchisees or former franchisees listed in this Disclosure Document may be one source of this information. All of these franchised Closet Factory Businesses are operations similar to the franchise offered in this Disclosure Document.

The COVID-19 pandemic did not materially impact the operations of franchised Closet Factory Businesses for the period from January 1, 2022 through December 31, 2022. From time to time, a local outbreak may have affected a franchisee's operations and sales for a maximum of 2 weeks while affected employees quarantined. In no case was a franchised Closet Factory Business completely closed during the period from January 1, 2022 through December 31, 2022.

NOTE 14:

"Gross Sales" means the aggregate of all revenues which are received by each Closet Factory Franchised Business included in 2022 Table 1, whether evidenced by cash, services, property, barter, or other means of exchange. Gross Sales excludes the sales tax collected, customer refunds, adjustments and credits.

"Average" means the aggregate Gross Sales divided by the total number of franchised Closet Factory Franchised Businesses included in 2022 Table 1. Of the 41 franchised Closet Factory Franchised Businesses included in 2022 Table 1, 14 or 34%, had annual Gross Sales above the annual Average Gross Sales of \$5,910,153 in 2022 Table 1.

"Median" means the midpoint dollar value for the 41 franchised Closet Factory Franchised Businesses included in 2022 Table 1.

NOTE 15:

2022 Table 2 sets forth all 41 franchised Closet Factory Franchised Businesses' Gross Sales for the year ending December 31, 2022 categorized into quarters based on Gross Sales ("Quartiles").

The total "Gross Sales" per Quartile means the aggregate of all revenues which are received by each Closet Factory Franchised Business in each Quartile, whether evidenced by cash, services, property, barter, or other means of exchange. Gross Sales excludes the sales tax collected, customer refunds, adjustments and credits.

The "Average Gross Sales" per Quartile was calculated by taking the sum of the Annual Gross Sales of the Closet Factory Franchised Businesses in each Quartile and dividing it by the total number of Closet Factory Franchised Businesses in each Quartile.

The "Median Gross Sales" per Quartile means the midpoint dollar value for the Closet Factory Franchised Businesses in each Quartile. If values are presented for an even number of Closet Factory Franchised Businesses, the Median is determined by taking the mean (average) of the two middlemost values, which is reached by adding those two values together and then dividing the aggregate by two.

NOTE 16:

Of the 10 franchised Closet Factory Franchised Businesses included in 2022 Table 2, First Quartile, 3 or 30% had Gross Sales that were greater than the Average Gross Sales of \$13,573,730 for the First Quartile.

Of the 10 franchised Closet Factory Franchised Businesses included in 2022 Table 2, Second Quartile, 4 or 40% had Gross Sales that were greater than the Average Gross Sales of \$5,625,995 for the Second Quartile.

Of the 10 franchised Closet Factory Franchised Businesses included 2022 Table 2, Third Quartile, 6 or 60% had Gross Sales that were greater than the Average Gross Sales of \$3,608,562 for the Third Quartile.

Of the 11 franchised Closet Factory Franchised Businesses included in 2022 Table 2, Fourth Quartile, 6 or 60% had Gross Sales that were greater than the Average Gross Sales of \$1,739,700 for the Fourth Quartile.

NOTE 17:

2022 Table 3 sets forth all 41 franchised Closet Factory Franchised Businesses' Average Sales Data for the year ending December 31, 2022 categorized into Quartiles.

The "Average Sales Data" per Quartile is the total aggregate dollar value of Gross Sales per Quartile divided by the total number of new orders per Quartile. A "new order" occurs when a contract is signed and a deposit is made by a client to a Closet Factory Business.

The "Median Sales Data" per Quartile is the midpoint dollar value for the Closet Factory Businesses in each Quartile.

NOTE 18:

2022 Table 4 sets forth all 41 franchised Closet Factory Franchised Businesses' Average Sales Per Opportunity Data for the year ending December 31, 2022 categorized into Quartiles.

The "Average Sales Per Opportunity" per Quartile is the total aggregate dollar value of Gross Sales per Quartile divided by the total number of customer appointments per Quartile. A "customer appointment" is the initial consultation with a client to discuss a project.

The "Median Sales Per Opportunity" per Quartile is the midpoint dollar value for the Closet Factory Businesses in each Quartile.

Other than the preceding financial performance representation, The Closet Factory Franchise Corporation does not make any financial performance representations. We also do not authorize our employees or representatives to make any such representations either orally or in writing. If you are purchasing an existing outlet, however, we may provide you with the actual records of that outlet. If you receive any other financial performance information or projections of your future income, you should report it to the franchisor's management by contacting our Chief Executive Officer and Chief Financial Officer, John La Barbera, The Closet Factory Franchise Corporation, 12800 South Broadway, Los Angeles, California 90061, (310) 516-7000, the Federal Trade Commission, and the appropriate state regulatory agencies.

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ITEM 20
OUTLETS AND FRANCHISEE INFORMATION

TABLE 1
SYSTEM-WIDE OUTLET SUMMARY *
FOR FISCAL YEARS 2022 TO 2024

Outlet Type	Year	Outlets At The Start Of Year	Outlets At The End Of Year	Net Change
Franchised				
	2022	69	74	+5
	2023	74	78	+4
	2024	78	86	+8
Company-Owned				
	2022	6	6	0
	2023	6	6	0
	2024	6	6	0
TOTAL OUTLETS				
	2022	75	80	+5
	2023	80	84	+4
	2024	84	92	+8

* In Item 20, we report numbers for territories, since “stores” are not used in our business. Franchisees listed on Exhibit G may own more than one territory.

TABLE 2
TRANSFERS OF OUTLETS FROM FRANCHISEES TO NEW OWNERS
(OTHER THAN THE FRANCHISOR)
FOR FISCAL YEARS 2022 TO 2024

State	Year	Number Of Transfers
California		
	2022	0
	2023	0
	2024	1
Illinois		
	2022	2
	2023	0
	2024	0
Kentucky		
	2022	0
	2023	0
	2024	0
Massachusetts		
	2022	0
	2023	2
	2024	1

State	Year	Number Of Transfers
Minnesota		
	2022	0
	2023	0
	2024	0
Missouri		
	2022	0
	2023	1
	2024	0
Nebraska		
	2022	0
	2023	1
	2024	0
North Carolina		
	2022	0
	2023	0
	2024	0
Oregon		
	2022	0
	2023	2
	2024	0
South Carolina		
	2022	2
	2023	1
	2024	0
Tennessee		
	2022	0
	2023	1
	2024	0
Texas		
	2022	2
	2023	0
	2024	2
TOTAL		
	2022	6
	2023	8
	2024	4

TABLE 3
STATUS OF FRANCHISED OUTLETS
FOR FISCAL YEARS 2022 TO 2024

State	Year	Outlets At Start Of The Year	Outlets Opened	Termina- tions	Non- Renewals	Reacquired By Franchisor	Ceased Operations Other Reasons	Outlets At End Of The Year
Arizona								
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1

State	Year	Outlets At Start Of The Year	Outlets Opened	Termina- tions	Non- Renewals	Reacquired By Franchisor	Ceased Operations Other Reasons	Outlets At End Of The Year
Arkansas								
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
California								
	2022	7	2	0	0	0	0	9
	2023	9	0	0	0	0	0	9
	2024	9	1	0	0	0	0	10
Colorado								
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Connecticut								
	2022	1	1	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Florida								
	2022	5	1	0	0	0	0	6
	2023	6	0	0	0	0	0	6
	2024	6	0	0	0	0	0	6
Georgia								
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Illinois								
	2022	4	0	0	0	0	0	4
	2023	4	0	0	0	0	0	4
	2024	4	0	0	0	0	0	4
Indiana								
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
	2024	0	1	0	0	0	0	1
Kansas								
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
	2024	0	1	0	0	0	0	1
Kentucky								
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Maryland								
	2022	0	1	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1

State	Year	Outlets At Start Of The Year	Outlets Opened	Termina- tions	Non- Renewals	Reacquired By Franchisor	Ceased Operations Other Reasons	Outlets At End Of The Year
Massachusetts								
	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
Michigan								
	2022	0	0	0	0	0	0	0
	2023	0	2	0	0	0	0	2
	2024	2	1	0	0	0	0	3
Minnesota								
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Missouri								
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Nebraska								
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Nevada								
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
New Jersey								
	2022	6	0	0	0	0	0	6
	2023	6	0	0	0	0	0	6
	2024	6	0	0	0	0	0	6
New York								
	2022	5	0	0	0	0	0	5
	2023	5	0	0	0	0	0	5
	2024	5	0	0	0	0	0	5
North Carolina								
	2022	2	0	0	0	0	0	2
	2023	2	1	1	0	0	0	2
	2024	2	0	0	0	0	0	2
Ohio								
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Oklahoma								
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
	2024	0	1	0	0	0	0	1

State	Year	Outlets At Start Of The Year	Outlets Opened	Termina- tions	Non- Renewals	Reacquired By Franchisor	Ceased Operations Other Reasons	Outlets At End Of The Year
Oregon								
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Pennsylvania								
	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
	2024	3	0	0	0	0	0	3
Rhode Island								
	2022	0	1	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	1	0	0	0	0
South Carolina								
	2022	2	0	0	0	0	0	2
	2023	2	1	0	0	0	0	3
	2024	3	0	0	0	0	0	3
Tennessee								
	2022	1	0	0	0	0	0	1
	2023	1	1	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Texas								
	2022	7	0	0	1	0	0	6
	2023	6	0	0	0	0	0	6
	2024	6	1	0	0	0	0	7
Utah								
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
	2024	1	0	0	0	0	0	1
Virginia								
	2022	4	0	0	0	0	0	4
	2023	4	0	0	0	0	0	4
	2024	4	0	0	0	0	0	4
Washington								
	2022	2	0	0	0	0	0	2
	2023	2	0	0	0	0	0	2
	2024	2	0	0	0	0	0	2
Wisconsin								
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
	2024	0	1	0	0	0	0	1
Toronto, ON								
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
	2024	0	2	0	0	0	0	2

State	Year	Outlets At Start Of The Year	Outlets Opened	Terminations	Non-Renewals	Reacquired By Franchisor	Ceased Operations Other Reasons	Outlets At End Of The Year
TOTALS								
	2022	69	6	0	1	0	0	74
	2023	74	5	1	0	0	0	78
	2024	78	9	1	0	0	0	86

Exhibit G is a list of Closet Factory franchisees as of December 31, 2024. Also included in Exhibit G are the name and last known city and state, and telephone number of every franchisee who has had an outlet terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during the most recently completed fiscal year. None of our franchisees have not communicated with us within 10 weeks of the issuance date of this Disclosure Document. If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system. During the last three fiscal years, no current or former franchisees have signed confidentiality clauses that restrict them from discussing their experiences as a franchisee in our franchise system with you.

There are no independent franchisee organizations that have asked to be included in this Disclosure Document.

TABLE 4
STATUS OF COMPANY-OWNED OUTLETS
FOR FISCAL YEARS 2022 TO 2024

State	Year	Outlets at Start of the Year	Outlets Opened	Outlets Reacquired from Franchisees	Outlets Closed	Outlets Sold to Franchisees	Outlets at End of the Year
California							
	2022	6	0	0	0	0	6
	2023	6	0	0	0	0	6
	2024	6	0	0	0	0	6
TOTALS							
	2022	6	0	0	0	0	6
	2023	6	0	0	0	0	6
	2024	6	0	0	0	0	6

CFI and CFFC are separate and distinct companies with separate purposes. The ownership and composition of the Board of Directors is the same. CFI operates Closet Factory retail outlets in accordance with the standards prescribed for franchisees by CFFC. CFFC does not own or operate any retail outlets.

TABLE 5
PROJECTED OPENINGS
AS OF DECEMBER 31, 2024

State	Franchise Agreements Signed But Outlets Not Opened	Projected New Franchised Outlets In Next Fiscal Year	Projected New Company-Owned Outlets In The Next Fiscal Year
Alabama	1	0	0
Idaho	0	1	0
Maine	0	1	0
North Carolina	1	0	0
Ohio	0	3	0
Tennessee	1	0	0
TOTALS	3	5	0

ITEM 21
FINANCIAL STATEMENTS

Our audited financial statements for the fiscal years ended December 31, 2022, 2023 and 2024 are attached as Exhibit A. Our fiscal year ends on December 31 of each year.

ITEM 22
CONTRACTS

Attached to this Disclosure Document are:

- Exhibit B - Franchise Agreement with Exhibits
- Exhibit C - Confidentiality Agreement
- Exhibit F – State Addenda
- Exhibit H - Non-Disclosure and Confidentiality Agreement

ITEM 23
RECEIPTS

2 copies of a Receipt of this Disclosure Document are attached as Exhibit I to this Disclosure Document. Please return one copy to us and keep the other for your records.

EXHIBIT A
TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION
FINANCIAL STATEMENTS

**THE CLOSET FACTORY FRANCHISE
CORPORATION
FINANCIAL STATEMENTS**

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Independent Auditor's Report

The Closet Factory Franchise Corporation
Los Angeles, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Closet Factory Franchise Corporation (an S Corporation), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of income, stockholders' equity, and cash flows for the two years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Closet Factory Franchise Corporation as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Closet Factory Franchise Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Closet Factory Franchise Corporation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Closet Factory Franchise Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Closet Factory Franchise Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Jonathon P. Reuben, CPA
An Accountancy Corporation
April 26, 2025

THE CLOSET FACTORY FRANCHISE CORPORATION
BALANCE SHEETS

ASSETS

	December 31,	
	2024	2023
Current assets		
Cash	\$ 568,363	\$ 578,383
Accounts receivable - net	1,941,070	1,622,183
Receivable from related parties	5,517,145	1,390,269
Prepaid income taxes	4,156	1,970
Total current assets	<u>8,030,734</u>	<u>3,592,805</u>
Property and equipment	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 8,030,734</u></u>	<u><u>\$ 3,592,805</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 49,185	\$ 6,623
Income taxes payable	55,488	693
Deferred revenue - short-term	366,947	277,893
Total current liabilities	<u>471,620</u>	<u>285,209</u>
Deferred tax liability	12,108	207,070
Deferred revenue - long term	756,733	598,388
Total liabilities	<u>1,240,461</u>	<u>1,090,667</u>
Stockholders' equity		
Common stock, no par value, 100,000 shares authorized, 16,667 shares issued and outstanding	60,000	60,000
Retained earnings	6,730,273	2,442,138
Total stockholders' equity	<u>6,790,273</u>	<u>2,502,138</u>
Total liabilities and stockholders' equity	<u><u>\$ 8,030,734</u></u>	<u><u>\$ 3,592,805</u></u>

The accompanying notes are an integral part of these financial statements.

THE CLOSET FACTORY FRANCHISE CORPORATION
STATEMENTS OF INCOME

	For the Year Ended December 31,	
	2024	2023
Revenue		
Franchise fees	\$ 339,601	\$ 284,125
Royalties	17,954,754	17,386,922
Other revenue	396,846	503,797
Total revenue	<u>18,691,201</u>	<u>18,174,844</u>
Operating expenses		
Marketing and advertising	5,263,817	7,208,022
General and administrative	9,271,199	10,411,801
Total operating expenses	<u>14,535,016</u>	<u>17,619,823</u>
Net income from operations	4,156,185	555,021
Provision (benefit) for income tax	<u>131,950</u>	<u>(157,246)</u>
Net Income	<u><u>\$ 4,288,135</u></u>	<u><u>\$ 397,775</u></u>

The accompanying notes are an integral part of these financial statements.

THE CLOSET FACTORY FRANCHISE CORPORATION
STATEMENT OF STOCKHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Retained</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Totals</u>
Balance - December 31, 2022	16,667	\$ 60,000	\$ 2,044,363	2,104,363
Net income for year ended December 31, 2023	<u>-</u>	<u>-</u>	<u>397,775</u>	<u>397,775</u>
Balance - December 31, 2023	16,667	\$ 60,000	\$ 2,442,138	\$ 2,502,138
Net income for year ended December 31, 2024	<u>-</u>	<u>-</u>	<u>4,288,135</u>	<u>4,288,135</u>
Balance - December 31, 2024	<u>16,667</u>	<u>\$ 60,000</u>	<u>\$ 6,730,273</u>	<u>\$ 6,790,273</u>

The accompanying notes are an integral part of these financial statements.

THE CLOSET FACTORY FRANCHISE CORPORATION
STATEMENTS OF CASH FLOWS

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities:		
Net income	\$ 4,288,135	\$ 397,775
Adjustments to reconcile net income to net cash used in operating activities		
Bad debt	393,599	-
Adjustments to reconcile net income to net cash used in		
(Increase) in accounts receivable	(712,486)	(582,857)
(Increase) decrease in related party receivable	(4,126,875)	37,584
(Increase) in prepaid taxes	(2,879)	(1,695)
Increase in accounts payable	42,562	4,506
Increase (decrease) in income taxes payable	55,488	(32)
Increase in deferred revenue	247,398	24,875
Increase (decrease) in deferred tax liability	<u>(194,962)</u>	<u>154,490</u>
Net cash provided (used) in operating activities	<u>(10,020)</u>	<u>34,646</u>
 Net increase (decrease) in cash	 (10,020)	 34,646
 Cash balance - beginning of period	 <u>578,383</u>	 <u>543,737</u>
 Cash balance - end of period	 <u><u>\$ 568,363</u></u>	 <u><u>\$ 578,383</u></u>
 Supplemental Disclosures of Cash Flow Activities		
Cash paid during the period for income taxes	<u>\$ 10,585</u>	<u>\$ 4,483</u>
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

Nature of Business

The Closet Factory Franchise Corporation (the “Company”) was organized in California on May 17, 1985. The Company has developed a franchising operation in the cabinet building industry.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with maturities of three months or less, when purchased, to be cash equivalents.

Concentration of Credit Risk

The Company is subject to concentrations of credit risk related to its cash and accounts receivables. At December 31, 2024 and 2023, the Company maintained all of its cash deposits at one bank. The Company’s average cash balance with this bank generally exceeds the \$250,000 insured limit as provided by the FDIC. The Company operates in only one business sector.

Property and Equipment

Property and equipment are stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. At the time property and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Depreciation is computed on the straight-line for financial reporting purposes and accelerated methods for income tax reporting purposes based upon the following estimated useful lives:

Office equipment	3 years
------------------	---------

The Company's equipment has a cost basis of \$24,036 which was fully depreciated. Depreciation expense charged to operations for 2024 and 2023 was \$0 and \$0, respectively.

Advertising

The Company expenses all advertising and related expenses when incurred.

Capital Structure

The Corporation is authorized to issue one class of stock designated as common, no-par value. Each share is entitled to one vote.

Income Taxes

The Company accounts for income taxes under the provisions of ASC Topic 740 "Income Taxes." Under ASC Topic 740, deferred tax assets and liabilities are recognized for future tax benefits or consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be realized through future operations (See Note 5).

Prior to January 1, 2024, the Company had operated as a C Corporation. Effective January 1, 2024, the Company has elected S Corporation status. Earnings and losses after that date will be included in the personal income tax returns of the Company's stockholders and taxed depending on their personal tax strategies. As a result, the Company will not incur any additional federal income tax obligations except for any federal income taxes which may become due on the future realization of built in gains. Future financial statements will not include a provision for federal income taxes. Prior to the change to S Corporation status, federal income taxes currently payable and related deferred income taxes were recorded in the Company's financial statements.

Subsequent Events

The Company has evaluated subsequent events through April 26, 2025, the date these financial statements were available to be issued.

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the standard effective January 1, 2018, the first day of the Company’s fiscal year using the modified retrospective approach. The revenue recognition guidance requires the recognition of revenue when promised goods and services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

The Company’s performance obligations consist of (1) a franchise license, (2) pre-opening services, which includes in-house training, and (3) ongoing consulting and training services. These performance obligations are highly interrelated, so the Company does not consider them to be individually distinct. The Company accounts for them under ASC 606 as a single performance obligation, which is satisfied over time by providing a right to use our intellectual property over the term of each franchise agreement.

The majority of the Company’s revenue sources are as follows:

- a. Initial franchise fee - Non-refundable initial franchise fee of \$58,500 which is non-refundable and payable upon the franchisee’s execution of the franchise agreement. The term of the franchise is five years and under the ASU, are being amortized into income over the five-year term of the franchise agreement.
- b. Franchise renewal fee – The Franchisee has the option to renew the franchise agreement for five successive terms of five years each. The Company charges a renewal fee of \$7,000 for each renewal. Under the ASU, renewal fees are being amortized into income over their respective five-year term.
- c. Royalties – A franchisee pays on a weekly basis a 6.75% royalty on the gross receipts it collects or \$600, whichever is greater. The royalty is included in revenue as earned.
- d. Transfer fees - With Company approval, a franchise can be transferred. The Company charges a \$18,500 transfer fee which is included in revenue when earned. Transfer fees are included in other income.

Disaggregation of Revenue

Performance obligations satisfied at a point in time consist of royalties, transfer fees, and other income which for 2024 and 2023 totaled \$18,361,600 and \$17,890,719, respectively.

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Performance obligations satisfied over time for 2024 totaled \$339,601 and consisted of franchise fees of \$266,424 and renewal fees of \$73,177. Performance obligations satisfied over time for 2023 totaled \$284,125 and consisted of franchise fees of \$218,997 and renewal fees of \$65,128.

NOTE 2 – RELATED PARTY TRANSACTIONS

The Company utilizes the employees, facilities, and other resources of The Closet Factory Inc. (“TCFI”) in its operations and reimburses TCFI, accordingly. TCFI is owned by the Company’s shareholders. During 2024, the total expenses reimbursed to TCFI totaled \$12,925,751. The Company paid TCFI \$17,052,627 during the year. During 2023, the total expenses reimbursed to TCFI totaled \$16,563,384. The Company repaid \$16,526,000 during the year.

As of December 31, 2024, and 2023, the Company was owed \$5,517,145 and \$1,390,269, respectively, from TCFI. The loan is unsecured, non-interest bearing, and due upon demand.

The Company receives royalties on TCFI’s sales. Royalties earned and collected in 2024 from TCFI amounted to \$460,071 and \$458,081, respectively. Royalties earned and collected in 2023 from TCFI amounted to \$533,748 and \$528,136, respectively., respectively. Royalty fees receivable from TCFI at December 31, 2024 and 2023 amounted to \$7,602 and \$5,612, respectively. Royalties earned from TCFI are included in royalty revenue. The outstanding balance owed by TCFI is included in accounts receivable.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	December 31,	
	2024	2023
Franchise and renewal fees receivable	\$ 12,000	\$ 32,650
Royalties receivable	2,318,715	1,979,178
	<u>2,330,715</u>	<u>2,011,828</u>
Less: Provision for doubtful accounts	(389,645)	(389,645)
	<u>\$ 1,941,070</u>	<u>\$ 1,622,183</u>

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Bad debt charged to operations in 2024 and 2023 amounted to \$393,599 and \$0, respectively.

NOTE 4 – DEFERRED REVENUE

As discussed in Note 1, the Company adopted ACS Topic 606, “Revenue from Contracts with Customers” effective January 1, 2018. Under this standard, the Company is required to amortize its initial franchise fees and renewal fees over the term of the respective franchise agreement.

Unearned revenue as of December 31, 2024 and 2023 consisted of the following:

	December 31,	
	2024	2023
Initial franchise fees	\$ 884,783	\$ 683,207
Franchise renewal fees	238,897	193,074
	<u>\$ 1,123,680</u>	<u>\$ 876,281</u>
Short-term portion	\$ 366,947	\$ 277,893
Long-term portion	\$ 756,733	\$ 598,388

NOTE 5 - INCOME TAXES

The components of income tax (benefit) expense are:

	December 31,	
	2024	2023
Income taxes - current	\$ 55,488	\$ 1,493
Deferred taxes from timing differences	(187,438)	155,753
Income tax (benefit) expense	<u>\$ (131,950)</u>	<u>\$ 157,246</u>

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

The Company's total deferred income taxes are classified as follows:

	December 31,	
	2024	2023
Deferred tax liabilities	\$ 12,108	\$ 207,070

Deferred income taxes are created when the timing of the recognition of income and expense items differs between financial and income tax reporting purposes. The significant timing differences giving rise to deferred income tax assets and liabilities are as follows:

The Company reports its revenue and expenses on the accrual method of accounting for financial reporting purposes and on the modified cash basis method for income tax reporting purposes. The significant timing differences giving rise to the deferred income tax liability include the following.

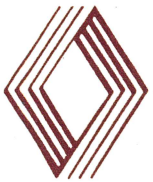
- 1) Recognition of revenue – Revenue is recognized when earned for financial reporting and revenue is recognized when received for income tax reporting purposes.
- 2) Provision for bad debt – Bad debt is charged to operations for financial reporting purposes in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. As revenue is reported only when received for income tax reporting purposes, the Company only recognized actual cash losses as bad debts for income tax reporting purposes.
- 3) Recognition of expenses – For financial reporting purposes, expenses are recognized when incurred. Expenses are generally recognized for income tax reporting purposes when paid.

As discussed in Note 1, the Company elected Subchapter S status effective January 1, 2024. The impact if the election at January 1, 2024, is to eliminate the Company's 2023 federal deferred tax liability and to reduce its 2023 State deferred tax liability due to the decrease in the State tax rate caused by the S election. The amount of the Company's 2024 income tax benefit caused by the S election totals \$196,017.

**THE CLOSET FACTORY FRANCHISE
CORPORATION
FINANCIAL STATEMENTS**

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Independent Auditor's Report

The Closet Factory Franchise Corporation
Los Angeles, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Closet Factory Franchise Corporation, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, stockholders' equity, and cash flows for the two years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Closet Factory Franchise Corporation as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Closet Factory Franchise Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Closet Factory Franchise Corporation's ability to continue as a going concern for one year after the date that the financial statements are issued.

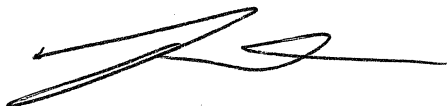
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Closet Factory Franchise Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Closet Factory Franchise Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Jonathon P. Reuben, CPA
An Accountancy Corporation
April 19, 2023

THE CLOSET FACTORY FRANCHISE CORPORATION
BALANCE SHEETS

ASSETS

	December 31,	
	2023	2022
Current assets		
Cash	578,383	543,737
Accounts receivable - net	1,622,183	1,039,326
Receivable from related parties	1,390,269	1,427,853
Prepaid income taxes	1,970	1,938
Total current assets	<u>3,592,805</u>	<u>3,012,854</u>
Property and equipment	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 3,592,805</u></u>	<u><u>\$ 3,012,854</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 6,623	\$ 2,117
Income taxes payable	693	2,388
Deferred revenue - short-term	277,893	253,693
Total current liabilities	<u>285,209</u>	<u>258,198</u>
Deferred tax liability	207,070	52,580
Deferred revenue - long term	598,388	597,713
Total liabilities	<u>1,090,667</u>	<u>908,491</u>
Stockholders' equity		
Common stock, no par value, 100,000 shares authorized, 16,667 shares issued and outstanding	60,000	60,000
Retained earnings	2,442,138	2,044,363
Total stockholders' equity	<u>2,502,138</u>	<u>2,104,363</u>
Total liabilities and stockholders' equity	<u><u>\$ 3,592,805</u></u>	<u><u>\$ 3,012,854</u></u>

The accompanying notes are an integral part of these financial statements.

THE CLOSET FACTORY FRANCHISE CORPORATION
STATEMENTS OF INCOME

	For the Year Ended	
	December 31,	
	2023	2022
Revenue		
Franchise fees	\$ 284,125	\$ 251,555
Royalties	17,386,922	16,262,295
Other revenue	503,797	491,168
Total revenue	<u>18,174,844</u>	<u>17,005,018</u>
Operating expenses		
Marketing and advertising	7,208,022	6,925,213
General and administrative	10,411,801	9,988,988
Total operating expenses	<u>17,619,823</u>	<u>16,914,201</u>
Net income from operations	555,021	90,817
Provision for income tax	<u>(157,246)</u>	<u>(23,375)</u>
Net Income	<u>\$ 397,775</u>	<u>\$ 67,442</u>

The accompanying notes are an integral part of these financial statements.

THE CLOSET FACTORY FRANCHISE CORPORATION
STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Retained	
	Shares	Amount	Earnings	Totals
Balance - December 31, 2021	16,667	\$ 60,000	\$ 1,976,921	2,036,921
Net income for year ended December 31, 2022	-	-	67,442	67,442
Balance - December 31, 2022	16,667	\$ 60,000	\$ 2,044,363	\$ 2,104,363
Net income for year ended December 31, 2023	-	-	397,775	397,775
Balance - December 31, 2023	<u>16,667</u>	<u>\$ 60,000</u>	<u>\$ 2,442,138</u>	<u>\$ 2,502,138</u>

The accompanying notes are an integral part of these financial statements.

THE CLOSET FACTORY FRANCHISE CORPORATION
STATEMENTS OF CASH FLOWS

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Net income	\$ 397,775	\$ 67,442
Adjustments to reconcile net income to net cash used in		
(Increase) decrease in accounts receivable	(582,857)	(217,603)
(Increase) decrease in provision for bad debts		
(Increase) decrease in related party receivable	37,584	(14,225)
Increase (decrease) in prepaid taxes	(1,695)	5,723
Increase (decrease) in accounts payable	4,506	(12,016)
Increase (decrease) in income taxes payable	(32)	3,393
Increase (decrease) in deferred revenue	24,875	136,445
Increase in deferred tax liability	154,490	21,931
Net cash provided (used) in operating activities	<u>34,646</u>	<u>(8,910)</u>
Net increase (decrease) in cash	34,646	(8,910)
Cash balance - beginning of period	<u>543,737</u>	<u>552,647</u>
Cash balance - end of period	<u><u>\$ 578,383</u></u>	<u><u>\$ 543,737</u></u>
Supplemental Disclosures of Cash Flow Activities		
Cash paid during the period for income taxes	<u>\$ 4,483</u>	<u>\$ -</u>
Cash paid during the period for interest	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

Nature of Business

The Closet Factory Franchise Corporation (the “Company”) was organized in California on May 17, 1985. The Company has developed a franchising operation in the cabinet building industry.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments and other short-term investments with maturities of three months or less, when purchased, to be cash equivalents.

Concentration of Credit Risk

The Company is subject to concentrations of credit risk related to its cash and accounts receivables. At December 31, 2023 and 2022, the Company maintained all of its cash deposits at one bank. The Company’s average cash balance with this bank generally exceeds the \$250,000 insured limit as provided by the FDIC. The Company operates in only one business sector.

Property and Equipment

Property and equipment are stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. At the time property and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Depreciation is computed on the straight-line for financial reporting purposes and accelerated methods for income tax reporting purposes based upon the following estimated useful lives:

Office equipment	3 years
------------------	---------

The Company's equipment has a cost basis of \$24,036 which was fully depreciated. Depreciation expense charged to operations for 2023 and 2022 was \$0 and \$0, respectively.

Advertising

The Company expenses all advertising and related expenses when incurred.

Capital Structure

The Corporation is authorized to issue one class of stock designated as common, no-par value. Each share is entitled to one vote.

Income Taxes

The Company accounts for income taxes under the provisions of ASC Topic 740 "Income Taxes." Under ASC Topic 740, deferred tax assets and liabilities are recognized for future tax benefits or consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for significant deferred tax assets when it is more likely than not that such assets will not be realized through future operations (See Note 5).

Subsequent Events

The Company has evaluated subsequent events through April 19, 2024, the date these financial statements were available to be issued.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the standard effective January 1, 2018, the first day of the Company's fiscal year using the modified retrospective approach. The revenue recognition guidance requires the recognition of

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

revenue when promised goods and services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

The Company's performance obligations consist of (1) a franchise license, (2) pre-opening services, which includes in-house training, and (3) ongoing consulting and training services. These performance obligations are highly interrelated, so the Company does not consider them to be individually distinct. The Company accounts for them under ASC 606 as a single performance obligation, which is satisfied over time by providing a right to use our intellectual property over the term of each franchise agreement.

The majority of the Company's revenue sources are as follows:

- a. Initial franchise fee - Non-refundable initial franchise fee of \$58,500 which is non-refundable and payable upon the franchisee's execution of the franchise agreement. The term of the franchise is five years and under the ASU, are being amortized into income over the five-year term of the franchise agreement.
- b. Franchise renewal fee – The Franchisee has the option to renew the franchise agreement for five successive terms of five years each. The Company charges a renewal fee of \$7,000 for each renewal. Under the ASU, renewal fees are being amortized into income over their respective five-year term.
- c. Royalties – A franchisee pays on a weekly basis a 6.75% royalty on the gross receipts it collects or \$600, whichever is greater. The royalty is included in revenue as earned.
- d. Transfer fees - With Company approval, a franchise can be transferred. The Company charges a \$18,500 transfer fee which is included in revenue when earned. Transfer fees are included in other income.

Disaggregation of Revenue

Performance obligations satisfied at appoint in time consist of royalties, transfer fees, and other income which for 2023 and 2022 totaled \$17,890,719 and \$16,753,463, respectively.

Performance obligations satisfied over time for 2023 totaled \$284,125 and consisted of franchise fees of \$218,997 and renewal fees of \$65,128. Performance obligations satisfied over time for 2022 totaled \$251,555 and consisted of franchise fees of \$184,142 and renewal fees of \$67,413.

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 2 – RELATED PARTY TRANSACTIONS

The Company utilizes the employees, facilities, and other resources of The Closet Factory Inc. (“TCFI”) in its operations and reimburses TCFI, accordingly. TCFI is owned by the Company’s shareholders. During 2023, the total expenses reimbursed to TCFI totaled \$16,563,384. The Company repaid \$16,526,000 during the year. During 2022, the total expenses reimbursed to TCFI totaled \$16,704,775. The Company repaid \$16,719,000 during the year. The facilities utilized by the Company is owned by a shareholder.

As of December 31, 2023, and 2022, the Company was owed \$1,390,269 and \$1,427,853, respectively, from TCFI. The loan is unsecured, non-interest bearing, and due upon demand.

The Company receives royalties on TCFI’s sales. Royalties earned and collected in 2023 from TCFI amounted to \$533,748 and \$528,136, respectively. Royalties earned and collected in 2022 from TCFI amounted to \$619,244 and \$620,419, respectively. Royalty fees receivable from TCFI at December 31, 2023 and 2022 amounted to \$5,612 and \$0, respectively. Royalties earned from TCFI are included in royalty revenue. The outstanding balance owed by TCFI is included in accounts receivable.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	December 31,	
	2023	2022
Franchise and renewal fees receivable	\$ 32,650	\$ 51,350
Royalties receivable	1,979,178	1,377,621
	<u>2,011,828</u>	<u>1,428,971</u>
Less: Provision for doubtful accounts	(389,645)	(389,645)
	<u>\$ 1,622,183</u>	<u>\$ 1,039,326</u>

Bad debt charged to operations in 2023 and 2022 amounted to \$0 and \$0, respectively.

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 4 – DEFERRED REVENUE

As discussed in Note 1, the Company adopted ACS Topic 606, “Revenue from Contracts with Customers” effective January 1, 2018. Under this standard, the Company is required to amortize its initial franchise fees and renewal fees over the term of the respective franchise agreement.

Unearned revenue as of December 31, 2023 and 2022 consisted of the following:

	December 31,	
	2023	2022
Initial franchise fees	\$ 683,207	\$ 668,204
Franchise renewal fees	193,074	183,202
	<u>\$ 876,281</u>	<u>\$ 851,406</u>
Short-term portion	\$ 277,893	\$ 253,693
Long-term portion	\$ 598,388	\$ 597,713

NOTE 5 - INCOME TAXES

The components of income tax expense are:

	December 31,	
	2023	2022
Income taxes - current	\$ 1,493	\$ 3,393
Deferred taxes from timing differences	155,753	19,982
Income tax expense	<u>\$ 157,246</u>	<u>\$ 23,375</u>

The Company’s total deferred income taxes are classified as follows:

	December 31,	
	2023	2022
Deferred tax liabilities	\$ 207,070	\$ 52,580

THE CLOSET FACTORY FRANCHISE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Deferred income taxes are created when the timing of the recognition of income and expense items differs between financial and income tax reporting purposes. The significant timing differences giving rise to deferred income tax assets and liabilities are as follows:

The Company reports its revenue and expenses on the accrual method of accounting for financial reporting purposes and on the modified cash basis method for income tax reporting purposes. The significant timing differences giving rise to the deferred income tax liability include the following.

- 1) Recognition of revenue – Revenue is recognized when earned for financial reporting and revenue is recognized when received for income tax reporting purposes.
- 2) Provision for bad debt – Bad debt is charged to operations for financial reporting purposes in amounts sufficient to maintain the allowance for uncollectible accounts at a level management believes is adequate to cover any probable losses. As revenue is reported only when received for income tax reporting purposes, the Company only recognized actual cash losses as bad debts for income tax reporting purposes.
- 3) Recognition of expenses – For financial reporting purposes, expenses are recognized when incurred. Expenses are generally recognized for income tax reporting purposes when paid.

The Company elected Subchapter S status effective January 1, 2024.

EXHIBIT B

TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE AGREEMENT AND EXHIBITS

THE CLOSET FACTORY FRANCHISE CORPORATION

EXHIBIT B

FRANCHISE AGREEMENT

THE CLOSET FACTORY
FRANCHISE CORPORATION
12800 South Broadway
Los Angeles, California 90061

Franchisee

Location

Date of Agreement

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THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE AGREEMENT

Effective Date: _____

Expiration Date: _____

Franchisor: THE CLOSET FACTORY FRANCHISE CORPORATION, a California corporation

Franchisee: _____

In a number of places in this Franchise Agreement, Franchisee is asked to initial certain items to show that they have been fully discussed with Franchisee, and read, understood and agreed to by Franchisee. Initialing those areas does not lessen the importance of other areas or mean they're not fully enforceable. Please initial below and at all other points indicated.

Franchisee's Initials: _____ / _____

1. INTRODUCTION, DEFINITIONS, AND PRELIMINARY AGREEMENTS.

1.1 Introduction.

A. Franchisor has developed, and plans to continue to develop, methods of operating Closet Factory Outlets which market, design, manufacture, install, service and repair custom closets and storage systems, and other authorized products and services, according to Franchisor's standards, specifications, methods and procedures. Franchisor refers to these businesses as "Traditional Closet Factory Outlets." Traditional Closet Factory Outlets operate at locations that feature a distinctive format and method of doing business, including color scheme, signs, equipment, layouts, systems, methods, proprietary software, procedures, designs and marketing and advertising standards and formats that are embodied in the Manuals (the "Closet Factory System" or "System"). Franchisor selectively awards franchises for others to own and operate Closet Factory Outlets using the Closet Factory System, Marks and other Intellectual Property.

B. To simplify this Agreement and make it easier to read and understand, Franchisor has defined certain terms used in this Agreement in Article 22. When Franchisee sees a capitalized word, or if Franchisee does not understand the meaning of a particular pronoun reference, look at Article 22 to see whether the term has been defined. Capitalized words that are not defined in Article 22 are defined in the section where they first appear.

C. Franchisee has applied for a franchise to own and operate a Traditional Closet Factory Outlet and Franchisee's application has been approved by Franchisor in reliance on the information Franchisee gave Franchisor.

D. Franchisee's Closet Factory Franchise is a licensing arrangement, awarded under specific terms and conditions. Franchisee must comply fully with this Agreement and the Manuals in order to use the Marks, System and other Intellectual Property.

E. Franchisee agrees that it is critical to Franchisee, Franchisor and each Franchisee for the Closet Factory System to be flexible to respond to commercial opportunities and challenges. An inability to change the Closet Factory System could adversely affect all Closet Factory Franchisees. Franchisee, therefore, agrees and anticipates that the Manuals and the Closet Factory System may be changed by Franchisor, from time to time in Franchisor's Business Judgment. Franchisee agrees to comply with the Manuals and the Closet Factory System as they are changed by Franchisor.

F. Every detail of Franchisee's Closet Factory Franchised Business is important — not only to Franchisee, but to Franchisor and to all Closet Factory franchisees — to increase and maintain the value of the Marks and the businesses associated with them. Therefore, during the Term of this Agreement, Franchisee must at all times develop, maintain and operate Franchisee's Closet Factory Outlet in accordance with each Closet Factory System Standard, as modified and supplemented by Franchisor from time to time in Franchisor's Business Judgment, and understands that such changes may require additional investments and/or changes by Franchisee in operations and other areas of Franchisee's Franchised Business.

G. Without Franchisee's commitment to the Closet Factory System and to fulfill each of the obligations detailed in this Agreement, Franchisor would not form this franchise relationship with Franchisee.

2. AWARD OF FRANCHISE.

2.1 Award of Franchise; Term, Franchisee's Basic Commitment.

A. Franchisor is pleased to award Franchisee a franchise to operate a single Traditional Closet Factory Outlet at a single location in the Territory to be approved by Franchisor, and to use the Marks and the Closet Factory System in the operation of that Traditional Closet Factory Outlet. If this Agreement is awarded in connection with a new franchise, the franchise is awarded for a term of 5 years, commencing on the Effective Date. Subject to the provisions of Article 15, Franchisee will be entitled to an unlimited number of 5-year successor franchises.

B. If this Agreement is awarded in connection with Franchisee's acquisition of an existing franchised Traditional Closet Factory Outlet, then the Term of this Agreement will end on the expiration date of the franchise agreement granted to the party from whom Franchisee acquired the franchise unless, pursuant to Section 14.3(A)(7), Franchisee elects and Franchisor approves a full Term as described in Section 2.1(A), above, in each case subject to earlier termination upon termination/expiration of the relevant lease/sublease as described in Section 2.1(A), above. The applicable Expiration Date is noted on the first page of this Agreement.

C. If this Agreement is awarded in connection with the grant of a successor franchise, then the Term of this Agreement will be governed by the successor provisions of the franchise agreement under which Franchisee operated during the initial term (which is now expired). The applicable Expiration Date is noted on the first page of this Agreement.

D. Franchisee agrees that Franchisee will at all times faithfully, honestly and diligently perform Franchisee's obligations under this Agreement, and that Franchisee will continuously exert Franchisee's best efforts to promote, enhance and maximize the business of Franchisee's Closet Factory Franchise and the goodwill of the Marks.

E. The Franchise awarded to Franchisee by this Agreement is to continuously operate the Closet Factory Outlet throughout the Term of this Agreement and to use the Marks and the Closet Factory System

only for purposes of conducting a business in accordance with the provisions of this Agreement, the Manuals and other communications from Franchisor. Franchisee must not conduct the business of the Closet Factory Outlet, use the Marks and/or distribute the Products/Services from any location other than the Premises, or for any purpose other than as approved by Franchisor in writing. Franchisee must not conduct any activities from the Premises other than the operation of Franchisee's Closet Factory Outlet without Franchisor's prior written consent. Franchisee will not engage in any other business or activity that may conflict with Franchisee's obligations under this Agreement or reduce the Gross Receipts of Franchisee's Closet Factory Outlet.

2.2 Territory.

A. Subject to Franchisor's rights as set forth anywhere in this Agreement and for its term (including any successor terms or extension), Franchisor will not enter into a Franchise Agreement licensing a Traditional Closet Factory Outlet, or open a Franchisor-owned Traditional Closet Factory Outlet, inside the area (the "Territory") described in Exhibit 2.2. Franchisee's rights in the Territory are exactly (and only) as expressly set forth in this Section 2.2. Except for the location of a Traditional Closet Factory Outlet within the Territory, Franchisee has no right to exclude, control or impose conditions on the location or operation of present or future Closet Factory (or any other brand) units or distribution channels of any type, franchised or Closet Factory-owned, regardless of their location or proximity to the Premises. This Franchise applies only to the establishment and operation of a Traditional Closet Factory Outlet (and related Products and Services as specified by Franchisor from time to time). The Franchise does not grant Franchisee any rights with respect to other and/or related businesses, products and/or services, in which Franchisor or any Franchisor Related Persons/Entities may be involved, now or in the future.

B. Franchisor and the Franchisor-Related Persons/Entities expressly reserve all other rights, and can (along with anyone Franchisor designates):

- 1) own and/or operate ourselves, and/or authorize others to own and/or operate:
 - a) any kind of business in the Territory, except for a Traditional Closet Factory Outlet, whether or not using the Marks and System; and
 - b) any kind of business outside of the Territory, including, without limitation, Traditional Closet Factory Outlets, whether or not using the Marks and System;
- 2) sell Closet Factory Brand (or any other brand) Products and Services (whether or not competitive) to customers located anywhere (including within the Territory) using any channel of distribution other than a Traditional Closet Factory Outlet located in the Territory;
- 3) develop or become associated with other concepts (including dual branding and/or other franchise systems), whether or not using the Closet Factory System and/or the Marks, and award franchises under such other concepts for locations anywhere;
- 4) acquire, be acquired by, merge, affiliate with or engage in any transaction with other businesses (whether competitive or not), with units located anywhere. Such transactions may include (but are not limited to) arrangements involving competing outlets and brand conversions (to or from the Marks and System). Such transactions are expressly permitted under this Agreement, and Franchisee agrees to participate at Franchisee's expense in any such conversion as instructed by Franchisor.

5) To market on the Internet and use the Marks on the Internet, including all use of websites, domain names, URLs, directory addresses, email addresses, metatags, linking, advertising, co-branding and other arrangements, and in all other forms of electronic media.

C. Franchisee understands that a “Traditional Closet Factory Outlet” is defined in Article 22. The term does not include non-Traditional Closet Factory Outlets or other distribution opportunities. A non-Traditional Closet Factory Outlet concept may include (but is not limited to) a kiosk; units housed within other retail facilities, such as a department store; Internet sites; and/or direct mail operations.

D. All customer lists and any potential customer leads, however generated, whether by Franchisee or Franchisor, are the sole property of the franchisor. Franchisor may assign potential customer leads to any franchisee in Franchisor’s sole discretion that Franchisor deems is capable of servicing that lead in Franchisor’s Business Judgment. If Franchisor assigns Franchisee a potential customer lead, Franchisee may not decline and is obligated to pursue and service any such lead. Franchisee may not solicit business outside Franchisee’s Territory without Franchisor’s prior written consent.

E. If Franchisee is not in Good Standing, Franchisor can reduce, eliminate or otherwise modify Franchisee’s territorial rights and/or Franchisee’s right to receive potential customer leads.

2.3 E-Commerce/Email Business and Special Accounts.

A. Franchisee’s use of the Internet, World Wide Web, and other electronic or other means of marketing and distribution of goods and/or services is prohibited by Franchisor. Franchisee will not market or sell through such venue(s) or any channel of distribution other than Franchisee Traditional Closet Factory Outlet without Franchisor’s written permission, which Franchisor can grant, condition or deny in Franchisor’s Business Judgment.

B. Franchisee agrees not to deal with Special Account(s), as Franchisor may specify from time to time.

C. Franchisor, the Franchisor-Related Persons/Entities and anyone Franchisor designates may offer/provide any Products and/or Services or otherwise through the Internet, World Wide Web, direct mail and/or other similar venues (no matter where the Customer is located), whether or not in connection with any use of the Marks and/or System.

I have read Sec. 2.1 - 2.3, understand them, and agree with them. Franchisee’s Initials: _____ / _____

3. DEVELOPMENT AND OPENING OF FRANCHISEE’S CLOSET FACTORY OUTLET.

3.1 Site Selection.

A. Franchisee must have a site acceptable to Franchisor, receive the opening notice from Franchisor described in Section 3.6, below, and do everything necessary for Franchisee’s Closet Factory Outlet to open for business within 6 months from the Effective Date. Franchisee must not operate a Closet Factory Outlet, use any of the Marks from or at any location, or make any commitments about a site until Franchisee has Franchisor’s written site acceptance. Franchisor will not unreasonably withhold Franchisor’s acceptance.

B. If Franchisee fails to acquire a site within the time provided in Section 3.1(A), above, then Franchisor has the right to Terminate this Agreement. The Franchise Fee is fully earned by Franchisor upon signing this Agreement and is entirely nonrefundable.

C. All matters related in any way to Franchisee's site are Franchisee's sole responsibility, regardless of any assistance Franchisor may choose to provide. Franchisee is responsible for obtaining any architectural and engineering services required for Franchisee's facility and for ensuring its compliance with local law.

3.2 Lease of Premises.

A. Franchisee agrees to submit any lease and all site-related documents to Franchisor for Franchisor's review prior to their execution by Franchisee. Franchisee will use commercially reasonable efforts to arrange for the inclusion of provisions in the Lease Addendum or other appropriate site-related documents which:

1) Obligate the lessor to provide Franchisor on request with information related to Franchisee's Closet Factory Outlet;

2) Permit Franchisee to operate Franchisee's Closet Factory Outlet in accordance with this Agreement and the Manuals;

3) Provide that the Premises will be used only for the operation of a Closet Factory Outlet, and prohibit Franchisee from assigning or modifying any of Franchisee lease rights, or extending the term without Franchisor's prior written consent;

4) Require the lessor to concurrently provide Franchisor with a copy of any written notices (whether of default or otherwise) to Franchisee under the lease and give Franchisor the right to cure any default if Franchisor so chooses;

5) Provide Franchisor with a right to take assignment and possession of Franchisee's Closet Factory Outlet, without the lessor's consent or any additional consideration. If Franchisor exercises this right, Franchisor will not have any liability for any obligations incurred prior to Franchisor's occupancy. Franchisee agrees to take whatever actions are necessary to accomplish such assignment and will, when Franchisee signs this Agreement, also sign the Collateral Assignment of Lease attached as Exhibit 3.2. If Franchisee loses Franchisee's lease rights to the Premises in connection with any bankruptcy, the lessor will, on Franchisor's request, enter into a new lease with Franchisor on essentially the same terms as the terminated lease;

6) Provide that the lessor consents to the use of the Marks, Trade Dress and other aspects of the Closet Factory System, as modified from time to time, and give Franchisor the right to enter the premises during normal business hours for purposes of inspection, to take steps to protect the Marks and Trade Dress and/or prevent/cure any default.

Franchisee will not execute a lease or sublease, or any modification or amendment, without Franchisor's prior written consent, which Franchisor can grant, condition or withhold in Franchisor's Business Judgment. Franchisee must deliver a copy of the signed lease or sublease to Franchisor within 5 days after it is signed.

3.3 Closet Factory Outlet Design Standards. Franchisee agrees to comply with any standards, specifications and other requirements (the "Design Standards") that Franchisor furnishes Franchisee for design, decoration, layout, equipment, furniture, fixtures, signs and other items for Franchisee's Closet Factory Outlet. Any changes from plans provided by Franchisor must be submitted to Franchisor for Franchisor's consent, which may be provided in Franchisor's Business Judgment. Franchisee's compliance with the Design Standards does not release Franchisee from Franchisee's obligations to ensure that Franchisee's Closet Factory Outlet is designed, constructed and operated in compliance with all local, state, and federal laws, including (without limitation) the Americans with Disabilities Act ("ADA"). Franchisee agrees to execute and deliver to Franchisor an ADA Certification in the form attached to this Agreement as Exhibit 3.3 before Franchisee opens Franchisee's Closet Factory Outlet to confirm and certify that Franchisee's Closet Factory Outlet and any proposed renovations comply with the ADA and other requirements.

3.4 Development for Franchisee's Closet Factory Outlet. Franchisee must select and employ a licensed contractor approved by Franchisor. Franchisee is solely responsible for the selection and work of any contractor selected and/or employed by Franchisee, even if referred by Franchisor.

3.5 Equipment, Furniture, Fixtures and Signs. Franchisee will use only Designated Equipment and Authorized Suppliers approved by Franchisor in the development and operation of Franchisee's Closet Factory Outlet as Franchisor may require. Franchisor and/or Franchisor's Affiliates may be such Authorized Suppliers.

3.6 Closet Factory Outlet Opening. To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, Franchisee will open Franchisee's Closet Factory Outlet for business immediately only upon Franchisor's notice to Franchisee that:

- A. all of Franchisee's pre-opening obligations have been fulfilled;
- B. pre-opening training has been completed;
- C. all amounts due Franchisor (and/or any Affiliate) have been paid; and
- D. copies of all insurance policies (and payment of premiums), leases/subleases and other required documents have been received.

3.7 Grand Opening Program - Marketing. Franchisee agrees to spend at least Twenty Thousand Dollars (\$20,000) on a grand opening marketing program over 3 months, commencing with the opening of Franchisee's Closet Factory Outlet. This amount is in addition to expenditures of marketing funds required in Article 11. Franchisor will furnish advice and guidance to Franchisee with respect to such program that Franchisee agrees to follow.

3.8 Relocation of Closet Factory Outlet Premises. To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, any relocation:

- A. must be to a location within the Territory (unless waived by Franchisor),
- B. requires Franchisor's prior written consent, which Franchisor can grant, condition or withhold in Franchisor's Business Judgment (and which may be withheld, if Franchisee is not in Good Standing),

- C. will be at Franchisee's sole expense, and
- D. will require that Franchisee (and each Affiliate and owner of Franchisee) sign a General Release.

If Franchisee's Closet Factory Outlet is damaged, condemned or otherwise rendered unusable, or if, in Franchisee's and Franchisor's judgment, there is a change in the character of the location of Franchisee's Closet Factory Outlet sufficiently detrimental to its business potential to warrant its relocation, Franchisee agrees to relocate Franchisee's Closet Factory Outlet.

3.9 Use of Vehicles. Franchisee and Franchisee's employees, agents and independent contractors will travel to Franchisee's customers' and prospective customers' residential or other properties only in vehicles (referred to as "Vehicles") that have been acquired, designed, equipped, painted, decaled, decorated and/or otherwise outfitted as specified by Franchisor. It is acknowledged that such restriction is necessary to present a uniform appearance to the public. The Vehicles must be operated and maintained in accordance with all specifications set forth in the Manuals, including, but not limited to, specifications concerning: 1) condition of the Vehicles; 2) cleanliness and appearance; 3) disposition; 4) safe driving; 5) compliance with applicable laws; 6) taxes and license fees; and 7) insurance.

3.10 Manufacturing Facility. Franchisor may allow Franchisee to serve more than one territory from a single Closet Factory Outlet manufacturing facility or Franchisor has the right to, in Franchisor's Business Judgment, require that each territory that Franchisee serve contain a separate manufacturing facility to serve that territory. Franchisee acknowledges and agrees that the addition of a manufacturing facility may be a condition of obtaining a successor agreement.

4. COMPUTER HARDWARE AND SOFTWARE SYSTEMS.

To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, Franchisor and Franchisee agree as follows:

A. Franchisee must purchase, use, maintain and update at Franchisee's expense the software, computer and other systems (including back office systems) meeting Franchisor's specifications, as Franchisor may modify them periodically. Franchisee agrees to maintain Franchisee's systems online to allow Franchisor access to system data and information. Franchisee agrees to comply with Franchisor's Then-Current Terms of Use and Privacy Policies and any other requirements regarding all computer and other systems, including Internet usage. Supplier and/or licensor charges for use, maintenance, support and/or updates of and to the required systems are payable by Franchisee upon receipt.

B. Neither Franchisor nor any of the Franchisor-Related Persons/Entities, the Marketing Fund and/or any FAC will have any liability and/or obligation (and neither Franchisee, nor any Affiliate of Franchisee, will make any claims) about any failures, errors or any other occurrences relating to any computer or system hardware or software without an express written warranty from Franchisor, even if recommended or specified by Franchisor.

5. TRAINING AND GUIDANCE.

5.1 Training.

A. Franchisee and each Closet Factory Outlet manager (each a “Designated Manager”), or other supervisory or managerial personnel, must successfully complete Franchisor’s initial training program before operating Franchisee’s Closet Factory Outlet. The Initial Franchise Fee covers an initial training program for Franchisee and Franchisee’s initial Closet Factory Outlet supervisory or managerial personnel. Franchisor has the right to charge a reasonable fee for training of additional and/or subsequent supervisory or managerial personnel. Franchisor can choose to eliminate or shorten training for persons previously trained or with comparable experience.

B. The initial training program will be at a time and place, and for such period, as Franchisor specifies in Franchisor’s Business Judgment. Franchisee will be responsible for all travel, living, incidental and other expenses for Franchisee and Franchisee’s supervisory or managerial personnel attending the initial training program and any other voluntary or mandatory training programs, seminars or meetings, unless otherwise agreed to by Franchisor in writing. Franchisor has the right to charge a tuition fee of \$200 per day for any optional training programs. Franchisor shall not be obligated to provide the initial training program if (i) Franchisee or any Affiliate of Franchisee (or an owner of either) owns or operates a Closet Factory Outlet as of the Effective Date; or (ii) this Agreement is executed as a Renewal Franchise Agreement.

C. If Franchisor, in Franchisor’s Business Judgment, determines that Franchisee has not successfully completed (or are not making satisfactory progress in) Franchisee’s initial training, Franchisor can either (1) require that a substitute supervisory or managerial person complete the training or (2) Terminate this Agreement. If Franchisor elects to Terminate, Franchisee and Franchisee’s Affiliates will return the Manuals and sign a General Release and a document acceptable to Franchisor that preserves the Post Termination Provisions of this Agreement. On performance of all of Franchisee’s obligations to Franchisor under this subsection, Franchisor will release Franchisee from Franchisee’s obligations to (1) operate the Closet Factory Outlet which is the subject of this Agreement and (2) pay royalties and Marketing Fund contributions relating to periods after the date of Termination.

D. Franchisee and Franchisee’s supervisory and managerial personnel must attend additional and/or refresher training programs, including national and regional conferences, conventions and meetings, as Franchisor has the right to reasonably require to correct, improve and/or enhance Franchisee’s operations, the Closet Factory System and its members. In addition, Franchisor has the right to require successful completion of training by Franchisee’s supervisory or managerial personnel as specified by Franchisor from time to time.

5.2 Guidance and Assistance. Franchisor will provide guidance in the operation of Franchisee’s Closet Factory Outlet. This guidance can be furnished in whatever manner Franchisor considers appropriate in Franchisor’s Business Judgment, including electronically, in writing or telephonically, through training programs and/or on-site consultations, among other methods. Franchisor may (but is not required to) provide on-site consultations at Franchisee’s Closet Factory Outlet, based on notice, availability of personnel and Franchisee’s payment of reasonable travel, food, incidental and lodging expenses. Franchisor has the right to elect to charge a reasonable fee for any such on-site consultations. If Franchisor believes in Franchisor’s Business Judgment that Franchisee’s operations warrant it, Franchisor has the right to require that a manager or other person designated by Franchisor (and compensated by Franchisee) be placed in Franchisee’s Closet Factory Outlet to supervise its day-to-day operations until operations meet Closet Factory System Standards. Franchisee acknowledges and agrees that the results of Franchisee’s efforts to operate a Closet Factory Outlet rest solely with Franchisee. Franchisor may make recommendations that it deems appropriate to assist Franchisee’s efforts. However, Franchisee alone shall establish all requirements, consistent with the policies of Franchisor, regarding: (i) employment policies, hiring, firing, training, wage and hour requirements, record

keeping, supervision, and discipline of employees; (ii) the individuals to whom Franchisee will offer and sell its products and services; and (iii) the suppliers from whom Franchisee obtains any products or services used in or at the Closet Factory Outlet for which Franchisor has not established Closet Factory Authorized Suppliers.

5.3 Remedial Training. If Franchisor determines it to be necessary, Franchisor may provide Franchisee and/or other supervisory or managerial personnel with remedial training or assistance subject to the availability of Franchisor's personnel. Franchisee shall pay Franchisor a fee of \$200 per day which will be charged by Franchisor to Franchisee and other franchisees to defray the direct costs of providing this remedial training. In addition, Franchisee shall be responsible for any and all other expenses incurred in connection with sending Franchisee's supervisory or managerial personnel to such remedial training including, without limitation, the costs of transportation, lodging, meals, training materials and any wages. Franchisor shall, in Franchisor's sole discretion, select the time and location of all remedial training.

5.4 Virtual Training, Assistance and Inspections. Franchisor may provide any or all portions of the initial training program, additional and/or refresher training programs, remedial training, pre and post-opening on-site opening assistance, post-opening consultations and/or post-opening inspections remotely over a virtual communication platform designated by Franchisor.

5.5 Manuals. During the Term of this Agreement, Franchisor will loan Franchisee (or allow Franchisee electronic or other access to) one copy of the Manuals. If Franchisor advises Franchisee that all or part of the Manuals or other specifications, standards and operating procedures are posted on a Website, Franchisee agrees that it is Franchisee's responsibility to monitor the Website for any changes, additions or deletions in the information provided. Franchisee will continuously comply, at Franchisee's sole expense, with all provisions of, and additions/deletions/changes to, the Manuals. Any such additions/deletions/changes will take precedence over all prior communications. Mandatory specifications, standards and operating procedures prescribed from time to time by Franchisor in the Manuals, or otherwise communicated to Franchisee electronically or otherwise, are a part of this Agreement. In the event of a dispute, the master Manuals maintained at Franchisor's office will control. The Manuals and the information and data that they contain will at all times remain Franchisor's sole and exclusive property. It is Franchisee's sole responsibility to establish, with respect to Franchisee's employees, appropriate personnel and security-related policies and procedures (provided that Franchisor always have the right to terminate Franchisee's rights by declaring a breach under this Agreement for conduct by Franchisee which threatens the goodwill associated with the Marks).

5.6 Franchisee Employee Policies. It is Franchisee's sole responsibility to establish, with respect to Franchisee's employees, appropriate personnel and security-related policies and procedures (provided that Franchisor shall always have the right to terminate Franchisee's rights by declaring a breach under this Agreement for conduct by Franchisee which threatens the goodwill associated with the Marks). Franchisee and Franchisor acknowledge and agree that Franchisor neither dictates nor controls labor or employment matters for Franchisee or Franchisee's employees, most particularly with respect to any mandated or other insurance coverage, tax or contributions, or requirements pertaining to withholdings, levied or fixed by any Governmental Authority. Franchisee and Franchisor will each file their own tax, regulatory and payroll reports, and be responsible for all employee benefits and workers' compensation insurance payments with respect to their respective employees and operations. Franchisee acknowledges and agrees that Franchisor will not have the power to hire or fire Franchisee's employees. Franchisee expressly agrees, and will never contend otherwise, that Franchisor's authority under this Agreement to certify Franchisee's supervisory or managerial personnel for qualification to perform certain functions at the Franchised Business does not directly or

indirectly vest in Franchisor the power to hire, fire or control any of Franchisee's personnel. Franchisee alone shall be solely responsible for all hiring and employment decisions and functions relating to the Franchised Business, including, without limitation, those related to hiring, firing, training, establishing remuneration, compliance with wage and hour requirements, personnel policies, benefits, recordkeeping, supervision and discipline of employees, regardless of whether Franchisee has received advice from Franchisor on these subjects or not. Franchisee acknowledges and agrees that any guidance Franchisee receives from Franchisor regarding employment policies should be considered as examples, that Franchisee alone is responsible for establishing and implementing its own employment policies, and that Franchisee understands that Franchisee should do so in consultation with local legal counsel experienced in employment law. Franchisee and Franchisor agree that neither Franchisor nor Franchisee is, or will be deemed to be, a joint employer with the other, and Franchisee shall indemnify, defend, reimburse and hold Franchisor harmless from any direct and indirect losses, costs and expenses, including attorneys' fees, arising out of any claim made by or for the benefit of any employee of Franchisee against Franchisor regarding employment decisions and employee functions at Franchisee's Closet Factory Outlet, including, without limitation, those related to hiring, firing, training, wage and hour requirements, record keeping, supervision, and discipline of employees. Franchisee shall take all action necessary to ensure that Franchisee's employees understand and acknowledge that they are not employees of Franchisor, including, without limitation, requiring Franchisee's employees to sign a written acknowledgement that Franchisee is an independently owned and operated franchisee and their sole employer in a form specified by Franchisor in the Manuals or otherwise in writing from time to time.

6. MARKS.

Franchisor and its Affiliates continue to develop, use and control the use of the Marks in order to identify for the public the source of services and products marketed under the Marks and the Closet Factory System, and to represent the Closet Factory System's high standards of quality, appearance and service.

To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, Franchisor and Franchisee agree as follows:

6.1 Goodwill and Ownership of Marks. Franchisee has a non-exclusive right to use the Marks and only as expressly authorized by Franchisor under this Agreement. Franchisor has all rights in and to the Marks. All goodwill belongs exclusively to Franchisor, and Franchisee will not obtain any goodwill in the Marks as a result of this Agreement, Franchisee's operation of the Franchise or for any other reason. Any unauthorized use of the Marks is a breach of this Agreement and an infringement of Franchisor's proprietary rights. Franchisee agrees that if Franchisee breaches any obligation regarding the Marks, Franchisor would have no adequate remedy at law and that Franchisor will be entitled to equitable relief. Franchisee will not oppose, or engage in any acts or omissions inconsistent with, Franchisor's rights in and to the Marks. This Agreement applies to all trademarks, service marks and other commercial symbols that Franchisor authorizes Franchisee to use throughout its term.

6.2 Limitations and Use of Marks. Franchisee will use the Marks as the sole identification for Franchisee's Closet Factory Outlet. Franchisee will not use any Mark, or modified version or derivative of a Mark, or any other mark or form of commercial identification confusingly similar to the Marks or Trade Dress, as part of any business or trade name or in any other manner not expressly authorized by Franchisor in advance and in writing. Prior to adoption and/or use, any proposed corporate and/or trade name must be approved by Franchisor in Franchisor's Business Judgment. Franchisee will give such trademark and other notices (including notices of independent ownership) as Franchisor directs and will, at Franchisee's expense, obtain fictitious or assumed name registrations as may be required under law. Franchisee will display the Marks as required by Franchisor and will not use the Marks so as to negatively affect their goodwill. Franchisee

will not use any Mark in connection with the performance or sale of any unauthorized services or products or at any location or in any other manner not expressly authorized in writing by Franchisor. Franchisee may use no other trademarks, trade name or service marks at or in connection with Franchisee's Closet Factory Outlet, except those expressly authorized in writing by Franchisor. Franchisee will not use any Mark in connection with, supporting, endorsing, promoting or otherwise advocating, advertising or marketing, in favor of or against any political party or candidate or cause or position at any time.

6.3 Notification of Infringements and Claims. Franchisee will take such actions as Franchisor considers important in Franchisor's Business Judgment to protect the Marks. Franchisee will not take any action that jeopardizes Franchisor's interests in, or the validity or enforceability of, the Marks. Franchisee agrees to immediately notify Franchisor of any apparent or actual infringement of, or of any challenge to Franchisee's use of, the Marks. Franchisee will not communicate with any third party with respect to such a claim. Franchisor will take such action as Franchisor deems appropriate in Franchisor's Business Judgment. As owner of the Marks, Franchisor has the exclusive right to control any settlement, litigation or proceeding arising out of or related to any such matters.

6.4 Discontinuance of Use of Marks. Franchisee agrees to comply at Franchisee's expense with any directions from Franchisor to discontinue, modify, substitute or add Marks. Franchisor cannot and does not make any guaranty that a modification, discontinuance of the Marks or otherwise will not be required for any reason. In such event, Franchisor will have no liability or obligation to Franchisee. Franchisee agrees to make no claim in connection with any modification, discontinuance or other action, and/or with any dispute regarding the Marks. There is always a possibility that there might be one or more businesses using a name and/or marks similar to Franchisor's and with superior rights. Franchisor urges Franchisee to research this possibility, using telephone directories, local filings and other means, prior to signing any documents or making any payments or commitments.

6.5 Electronic Media. Except as expressly limited in this Agreement, Franchisor (for itself, its affiliates and designees) retains all rights with respect to use of the Marks and the Closet Factory System to sell any products or services, similar to those which Franchisee sells, through any alternate channels of distribution. This includes, but is not limited to, retail locations and other channels of distribution such as television, mail order, catalog sales, wholesale to unrelated retail outlets, over the Internet, or through other forms of electronic media (including social technology, social media and social networking platforms). Franchisor exclusively reserves the Internet and other forms of electronic media as channels of distribution for Franchisor, and Franchisee may not independently market on the Internet or through other forms of electronic media, or conduct e-commerce without Franchisor's prior written consent.

7. RELATIONSHIP OF THE PARTIES; INDEMNIFICATION.

7.1 Independent Contractor. Franchisee will always identify itself to all persons and in all dealings of Franchisee's Closet Factory Outlet as an independent owner under a Closet Factory franchise, clearly indicating that Franchisee's Franchised Business is separate and distinct from Franchisor's business. Franchisee will include notices of independent ownership on such forms, business cards, stationery, advertising, signs and other materials as Franchisor requires from time to time. Subject to the requirements of this Agreement and the Manuals, Franchisee will have complete operational control of Franchisee's business, including the right to hire and fire each employee.

7.2 No Liability for Acts of Other Party. Franchisee will not represent that Franchisee's and Franchisor's relationship is other than that of independent Franchisor and Franchisee. Neither Franchisee nor

Franchisor will have any liability under any acts, omissions, agreements or representations made by the other that are not expressly authorized in writing.

7.3 Taxes. Payment of all taxes related to Franchisee's Franchised Business is Franchisee's sole responsibility. Franchisor has no liability for any taxes on the sales made and/or business conducted by Franchisee (except for any taxes Franchisor is required by law to collect from Franchisee with respect to purchases from Franchisor).

7.4 Responsibility, Indemnity, etc.

A. Franchisee will indemnify and hold Franchisor and all of the Franchisor-Related Persons/Entities, the Marketing Fund and any Franchise Marketing Group ("FMG") or FAC harmless from all fines, suits, proceedings, claims, demands, actions, losses, damages, costs, fees (including attorneys' fees and related expenses) and/or any other liability of any kind or nature, however arising, growing out of or otherwise connected with and/or related to any act, error and/or omission of Franchisee's (including, but not limited to, Franchisee ownership and/or management of Franchisee's Closet Factory Outlet and/or any transfer of any interest in this Agreement or Franchisee's Closet Factory Outlet). Franchisor will have the right to control all litigation, and defend and/or settle any claim, against and/or including Franchisor and/or the Franchisor-Related Persons/Entities, the Marketing Fund and/or any FMG or FAC, or affecting Franchisor and/or their interests, in such manner as Franchisor deems appropriate in Franchisor's Business Judgment, without affecting Franchisor's rights under this indemnity.

B. Any goods and/or services provided by Franchisor, the Franchisor-Related Persons/Entities, the Marketing Fund and/or any FAC, FMG and/or any "approved" person/company/referral are provided without any warranties, express or implied, THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE BEING EXPRESSLY DISCLAIMED, absent a specific written warranty expressly provided in connection with a particular item or service.

I have read this Section 7.4, understand it, and agree with it.

Franchisee's Initials: _____ / _____

7.5 Disclosure. Franchisor can disclose, in disclosure documents and other places Franchisor designates, and/or as required by law, any information relating to Franchisee's Closet Factory Outlet, including Franchisee's name, any address and/or phone number(s), revenues, expenses, results of operations and/or other information. Any disclosure by Franchisor will be for reasonable business purposes.

8. CONFIDENTIAL INFORMATION; EXCLUSIVE RELATIONSHIP.

8.1 Confidential Information - Non-Disclosure and Non-Use.

A. Franchisee acknowledges and agrees that the Closet Factory System is comprised of Confidential Information that has been developed by Franchisor by the investment of time, skill, effort and money and is widely recognized by the public, is of substantial value, and is proprietary, confidential and constitutes trade secrets of Franchisor and its affiliates. "Confidential Information" includes, without limitation, tangible and intangible information (whether or not in electronic form) relating to Franchisor's business operations, Manuals, training, techniques, processes, policies, procedures, systems, proprietary software, data and know how regarding the development, marketing, operation and franchising of Closet Factory Outlets; (2) designs, specifications and information about Products and Services, marketing programs, specifications for, and suppliers of, certain materials, equipment, and otherwise for Franchisee's Closet Factory Outlet, customer management and other software, data, other content, formulations, patterns, compilations, programs, devices and processes, business relationships, contact information for industry professionals, designs, developmental or experimental work and services, improvements, discoveries, plans for research, potential new or supplemental products and services, websites, advertisements or ancillary products and services, marketing and selling methods and/or plans, business plans, budgets and unpublished financial statements, licenses, prices and costs, vendors, collaborators, information regarding credit extensions to customers, customer service purchasing histories and prices charged to customers, potential customer leads, and suppliers, customer lists and other customer data, information regarding the skills and compensation of employees of Franchisor and contractors of Franchisor, designs, drawings, specifications, source code, object code, documentation, diagrams, flowcharts, research, development, marketing techniques and materials, trademarks, trade secrets, sales/license techniques, inventions, copyrightable material, trademarkable material, databases, relationships between Franchisor and other companies, persons or entities, knowledge or know-how concerning the methods of operation of the Franchised Business which may be communicated to Franchisee, or of which Franchisee may be apprised, by virtue of Franchisee's operation of the Franchised Business under the terms of this Agreement, and any other information or material considered proprietary by Franchisor whether or not designated as confidential information by Franchisor, that is not generally known by the public, or which derives independent economic value (actual or potential) from not being generally known to the public or persons unaffiliated with Franchisor or its Affiliates and which is the subject of efforts by Franchisor that are reasonable under the circumstances to maintain its secrecy, and any other information in oral, written, graphic or electronic form which, given the circumstances surrounding its disclosure, would be considered confidential.

"Confidential Information" is not intended to include any information that:

- 1) is or subsequently becomes publicly available other than by breach of any legal obligation,
- 2) was known by Franchisee prior to Franchisee becoming a Closet Factory Franchisee, or
- 3) became known to Franchisee other than through a breach by Franchisee of a legal obligation.

Franchisee agrees that Franchisor owns and controls all domain names and URLs ("Uniform Resource Locator") relating to any Closet Factory Outlets, as well as all information, lists and data related to past, present and future customers of Franchisee's Closet Factory Outlet. Franchisee acknowledges and agrees that

Franchisor has and will continue to expend substantial time, effort and money to identify customers and potential customers with particular needs and characteristics uniquely related to products and services provided under the Closet Factory System. Franchisee further acknowledges and agrees that those lists and related information are difficult, costly and time-consuming to obtain. Therefore, Franchisee's only interest in any of this proprietary and/or Confidential Information is the right to use it pursuant to this Agreement. Franchisee has the burden of proof and of going forward in any dispute between Franchisee and Franchisor involving the proprietary or confidential nature of any information.

B. To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, both during the Term of this Agreement and for 5 years after the end of the Term (except for trade secrets, which are subject to Franchisee's permanent obligation), Franchisee agrees:

- 1) to use the Confidential Information only for the operation of Franchisee's Closet Factory Outlet under a Closet Factory Franchise Agreement;
- 2) to maintain the confidentiality of the Confidential Information;
- 3) not to make or distribute, or permit to be made or distributed, any unauthorized copies of any portion of the Confidential Information;
- 4) not to alter, appropriate, use or distribute any Closet Factory Equipment designs or specifications, or any substantially similar designs or specifications; and
- 5) to implement all prescribed procedures for prevention of unauthorized use or disclosure of the Confidential Information.

Specifically, Franchisee will not sell, rent or allow anyone to use any list of customers (such lists being part of the Confidential Information, a Trade Secret, and Franchisor's property) other than in connection with the mailing of advertising materials approved by Franchisor for Franchisee's Traditional Closet Factory Outlet. Franchisee agrees that any unauthorized use or duplication of any part of the Confidential Information, including in any other business, would be an unfair method of competition with Franchisor and other Closet Factory operators.

Notwithstanding the foregoing, if an item is not merely Confidential Information but constitutes a trade secret under applicable law, the above obligations will apply without any time limit.

C. Franchisee agrees to disclose to Franchisor all ideas, techniques, methods and processes relating to a Closet Factory Outlet which are conceived or developed by Franchisee and/or Franchisee's employees. Franchisor will have the perpetual right to use, and to authorize others to use, such ideas, techniques, methods, processes, etc., without payment to Franchisee.

D. Franchisee will require each of Franchisee's supervisory or managerial personnel, agents, principals and Affiliates who may have access to any Closet Factory Confidential Information to sign a form of confidentiality agreement containing substantially the same provisions as are set forth in this Article 8 and as may be approved by Franchisor. Franchisee will provide Franchisor copies of the same upon request.

E. If Franchisee's Closet Factory Outlet is to be located and/or operated within, in conjunction with or as part of another business, Franchisee will first arrange for the other business and its personnel (as

specified by Franchisor) to enter into appropriate arrangements to protect Franchisor's Intellectual Property and other interests, including (but not limited to) signing of agreements with Franchisor regarding non-competition, confidentiality, non-solicitation of employees and customers and indemnity/insurance arrangements.

8.2 Exclusive Relationship, Restrictions on Similar Businesses During Franchise Term and After Transfer, Termination, Expiration, Repurchase, etc.

A. In Term Restrictions: During the Term of this Agreement and any successor franchise, neither Franchisee, nor any Affiliate of Franchisee's, nor any director, manager, officer, shareholder, member or partner of Franchisee (if Franchisee is or becomes a Business Entity), nor any Immediate Family member of any of the foregoing, will:

- 1) have any direct or indirect interest anywhere in any Similar Business, or in any entity awarding franchises or licenses or establishing joint ventures or other business enterprises for the operation of Similar Businesses; or
- 2) perform any services anywhere as an employee, agent, representative or in any capacity of any kind for any Similar Business, or for any entity awarding franchises or licenses or establishing joint ventures to operate Similar Businesses.

If Franchisee violates Section 8.2(A) 3 during or after the Term of this Agreement, then Franchisor's remedies will include, without limitation, the right to terminate this Agreement and/or require Franchisee to pay Franchisor Five Thousand Dollars (\$5,000.00) for each occurrence, Franchisee and Franchisor mutually agree that such amount is a reasonable, good faith estimate of damages given the extreme difficulty in determining the damages suffered as a result of such breach.

B. Post Term Restrictions: For 2 years after any of the following events: (1) any transfer, Repurchase and/or Termination of this Agreement; (2) the expiration of this Agreement (if a Successor franchise or renewal term is not granted); (3) the date on which Franchisee stops operating Franchisee's final Closet Factory Outlet; (4) the date on which Franchisee stops using the Marks and/or System, and/or (5) the issuance of a final court order (after all appeals have been taken) with respect to any of the foregoing events or with respect to enforcement of this Section 8.2(B), all of the persons and entities named in Section 8.2(A), above:

- 1) will not accept or solicit any person, firm or company that has been a Closet Factory customer or who is a potential customer with whom Franchisee has had any dealings in connection with Franchisee's Closet Factory Outlet (including any and all persons, firms or companies contained on all Closet Factory lists of customers or potential customers), nor try to divert any such customers from any Closet Factory Outlet or Closet Factory enterprise of any kind (including any operations owned by any Franchisor-Related Persons/Entity).
- 2) will not, without Franchisor's prior written consent, either directly or indirectly, for itself, or through, on behalf of, or in conjunction with any person, persons, or legal entity, own, maintain, advise, operate, engage in, be employed by, make loans to, or have any interest in or relationship or association with a business which is: (a) a Similar Business, and (b) is, or is intended to be, located at or within a twenty-five (25) mile radius of the Premises.

3) will be subject to all of the restrictions stated in Section 8.2(A), above, with respect to Similar Businesses located, and/or services to be performed, in the Territory. However, the 2 year period following such terminating event will be extended for one additional year if, during the first 2 years a Closet Factory Outlet is located in a portion of Franchisee's former Closet Factory Territory. Franchisee and Franchisor intend to provide any such newly established Closet Factory Outlet a reasonable period of time in which to launch its operations in a new market without unfairly being competitively disadvantaged by having a party familiar with and experienced in the Closet Factory System operating in the same Territory.

4) Franchisee is responsible for learning whether or not a particular location is within a Closet Factory Territory by providing Franchisor a written request for such information. Any and all determinations that Franchisor makes regarding the Territory will be final and binding on Franchisee.

5) Franchisee and Franchisor have expressly agreed and acknowledged that it is Franchisee's obligation under this Agreement to ensure the compliance of each of the persons identified in Section 8.2(A), with the restrictions described in this Section 8.2. Notwithstanding the foregoing, Franchisor will use reasonable judgment in evaluating whether or not the conduct of an Immediate Family member warrants Franchisor exercising any rights under this provision, considering Franchisee's actual relationship to such member and his/her activities, among other factors. The restrictions of this Section do not apply to the ownership of shares of a Similar Business (of a class of securities listed on a stock exchange or traded on the over-the-counter market) which represent less than three percent (3%) of the number of shares of that class issued and outstanding.

6) Franchisee and Franchisor share a mutual interest in ensuring compliance with the limitations on competition described in this Section 8.2. A Closet Factory Franchisee's non-compliance with these restrictions would damage Franchisee, Franchisor and other Closet Factory franchisees and unfairly limit reasonable expansion alternatives open to Franchisor and Closet Factory System members. Franchisee acknowledges and agrees that such protections can enhance the value of the Closet Factory System to Franchisee as a Franchisee, represent a reasonable balancing of Franchisee's and Franchisor's respective interests and have been expressly bargained for. Franchisee confirms that Franchisee possesses valuable skills unrelated to the Franchised Business and has the ability to be self-supporting and employed regardless of the competitive restrictions described in this Section 8.2. Franchisee and Franchisor also acknowledge and agree that the restrictions of this Article 8 will not generally prevent Franchisee from practicing a lawful profession, trade, or business and are limited to the express restrictions on solicitation of customers and operation of a Similar Business in certain limited geographical areas as detailed in this Agreement.

7) If Franchisee violates any of the foregoing restrictions, Franchisor's remedies will include (but not be limited to) the right to obtain equitable relief and to receive all profits generated in connection with the operation of any Similar Business until the date Franchisee ceases to violate such restrictions as set forth in Section 8.2(C). All competitive restrictions will be extended for the length of time that any breach of the Post Termination Obligations is ongoing. If any of the restrictions of this Article are determined to be unenforceable to an extent because of excessive duration, geographic scope, business coverage or otherwise, they will be reduced to the level that provides the greatest protection to Franchisor and the Closet Factory System, but which is still enforceable, notwithstanding any choice of law or other provisions in this Agreement to the contrary.

C. Violation of Post Term Restrictions: If Franchisee shall commit any violation of Section 8.2 B during the 2 year period following (1) any transfer, Repurchase and/or Termination of this Agreement; (2) the expiration of this Agreement (if a successor franchise or renewal term is not granted); (3) the date on which Franchisee stops operating Franchisee's final Closet Factory Outlet; (4) the date on which Franchisee stops

using the Marks and/or System; and/or (5) the issuance of a final court order (after all appeals have been taken) with respect to any of the foregoing events or with respect to enforcement of Section 8.2 B, in addition to all other remedies available to Franchisor, Franchisee shall pay Franchisor, throughout the 2 year period, five percent (5%) of all revenue derived from the operation of the Similar Business in violation of Section 8.2 B, including the sale of all products and services and all other income of every kind and nature at or from the Similar Business ("Post Termination Gross Revenue"). The time limitation imposed in Section 8.2 B shall be tolled during the entire period of time that Franchisee is in default under Section 8.2 B. Franchisee shall account for and pay the five percent (5%) of such Post Termination Gross Revenue to Franchisor on the 15th day of each month on the Post Termination Gross Revenue of the Similar Business during the preceding month. Franchisor shall have the right to audit the books and records of the Similar Business to confirm Franchisee's compliance with this Section 8.2(C), upon reasonable prior notice to Franchisee.

D. Reducing Scope of Covenants: Franchisee understands, acknowledges and agrees that Franchisor has the right, in Franchisor's sole discretion, to reduce the scope of any covenant set forth in Sections 8.2(A) and 8.2(B), or any portion thereof, without Franchisee's consent, effective immediately upon receipt by Franchisee of written notice thereof; and Franchisee agrees that Franchisee shall comply forthwith with any covenant as so modified, which shall be fully enforceable.

E. Permission from Franchisor: If Franchisor expressly grants Franchisee permission in writing to compete with Franchisor pursuant to an arrangement made under Section 8.2(D) or otherwise, as a condition to being granted such permission, Franchisee shall pay Franchisor, throughout the 2 year period following (1) any transfer, Repurchase and/or Termination of this Agreement; (2) the expiration of this Agreement (if a successor franchise or renewal term is not granted); (3) the date on which Franchisee stops operating Franchisee's final Closet Factory Outlet; (4) the date on which Franchisee stops using the Marks and/or System, and/or (5) the issuance of a final court order (after all appeals have been taken) with respect to any of the foregoing events or with respect to enforcement of Section 8.2(B), five percent (5%) of the Post Termination Gross Revenue earned by Franchisee from any competitor, customer, client, vendor, or account of Franchisor, including, but not limited to, any competitor, customer, client, vendor, or account of Franchisor who was procured by Franchisee with whom Franchisee became acquainted by reason of this Agreement, or by reason of Franchisee's access to, or knowledge of, the Confidential Information disclosed to Franchisee during the term of this Agreement. Franchisee shall account for and pay the five percent (5%) of such Post Termination Gross Revenue to Franchisor on the 15th day of each month on the Post Termination Gross Revenue earned during the preceding month. Franchisor shall have the right to audit Franchisee's books and records to confirm Franchisee's compliance with this Section 8.2(E), upon reasonable prior notice to Franchisee.

F. Enforceability of Covenants Not Affected by Franchisee Claims: Franchisee expressly agrees that the existence of any claims Franchisee may have against Franchisor, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Franchisor of the covenants in Section 8.2. Franchisee agrees to pay all costs and expenses (including reasonable attorneys' fees) incurred by Franchisor in connection with the enforcement of Section 7.2.

G. Reasonable Good Faith Estimate: Franchisor and Franchisee acknowledge and agree that it would be impossible and impracticable to determine the precise amount of damages and expenses Franchisor will incur (1) if Franchisee shall commit any violation of Section 8.2(B) during the 2 year period following i) any transfer, Repurchase and/or Termination of this Agreement; ii) the expiration of this Agreement (if a successor franchise or renewal term is not granted); iii) the date on which Franchisee stops operating Franchisee's final Closet Factory Outlet; iv) the date on which Franchisee stops using the Marks and/or System, and/or v) the issuance of a final court order (after all appeals have been taken) with respect to any of the

foregoing events or with respect to enforcement of Section 8.2(B) or (2) if Franchisor expressly grants Franchisee permission in writing to compete with Franchisor pursuant to an arrangement made under Section 8.2(D) or otherwise due to the complications inherent in determining the amount of revenue lost by Franchisor because of the uncertainty regarding the number of months left to complete the Then-Current term of this Agreement, the uncertainty regarding the Gross Receipts of Franchisee's Closet Factory Outlet during the remainder of the Then-Current term of this Agreement, the amount of royalty fees Franchisee would have paid Franchisor based upon the Gross Receipts of Franchisee's Closet Factory Outlet and the like as well as the amount of the fees that Franchisor will collect from Franchisee upon the occurrence of the circumstances described in Section 8.2(C) and 8.2(E). Franchisor and Franchisee further acknowledge and agree that the five percent (5%) fee is a reasonable, good faith estimate of such damages.

9. FEES.

9.1 Initial Franchise Fee, Releases, etc.

A. An Initial Franchise Fee of Fifty-Eight Thousand Five Hundred Dollars (\$58,500) is fully earned by, and payable to, Franchisor on signing of this Agreement. The fee is entirely nonrefundable.

B. If Franchisee and Franchisor have, or have had, a pre-existing franchise relationship prior to the execution of this Agreement, the language of the General Release attached as Exhibit 9.1 is incorporated in and effective upon the signing of this Agreement, excepting only those claims solely related to the offer and sale of this Franchise where such releases are expressly prohibited by applicable law.

C. As a condition to the occurrence of any of the following events (the "Events"), Franchisee and/or any affiliate/owner of Franchisee will sign a General Release, excluding only (where such releases are expressly prohibited by applicable law) those claims solely related to the offer and sale of the new Franchise:

- 1) the awarding of any future, additional or other franchise or territory;
- 2) the renewal of this franchise and/or awarding of a successor franchise;
- 3) any assignment or transfer (as defined in Section 14.2) by Franchisee and/or any affiliate/owner of Franchisee; and/or

4) any other event described in this Agreement as being conditioned in whole or in part upon such a General Release (as defined in Article 22). If Franchisor fails to request or obtain from Franchisee any General Release(s), at the occurrence of any of the foregoing Events, then the occurrence of the Event itself will constitute the grant of such General Release.

D. Franchisee and Franchisor have agreed on these provisions considering that: (1) the releases to be provided in the future will be effective as of future dates only, (2) the release requirement generally is triggered by a discretionary choice made by Franchisee to receive various future benefits (e.g. an award of an additional, successor, assignment franchise, etc.), and (3) Franchisee providing a release to Franchisor (and Franchisor informing Franchisee of possible known claims by Franchisor) is a practical business approach if Franchisee and/or Franchisor propose to change, extend, expand or otherwise modify Franchisor's relationship at a future date. Franchisee and Franchisor agree that setting mutual expectations for the receipt of such future releases and assenting to grant them now is more productive than being surprised by such requirements at a later point in Franchisor's relationship.

9.2 Royalty - Percentage and Minimum, Payment Dates.

A. Franchisee must pay Franchisor a royalty amount of six and three quarter percent (6.75%) of the "Gross Receipts" received by Franchisee during the preceding week. Beginning with the fortieth (40th) week following the opening of Franchisee's Closet Factory Outlet, Franchisee must pay Franchisor the minimum continuing royalty amount of Nine Hundred Seventy-Five Dollars (\$975.00) or six and three quarter percent (6.75%) of Gross Receipts received by Franchisee during the preceding week, whichever amount is greater. The current minimum continuing royalty amount is Nine Hundred Seventy-Five Dollars (\$975.00) per week and is subject to the inflation adjustment in Section 9.6, below. Provided, however, that the minimum continuing royalty amount is applicable only if the four-week moving average of six and three quarter percent (6.75%) of Gross Receipts falls below the minimum continuing royalty amount as adjusted for inflation under Section 9.6. Minimum and/or percentage royalties are to be paid by the 3rd business day after the end of each week. Royalty payments are due commencing with the week in which Franchisee begins Closet Factory Outlet operations or 6 months after the Effective Date, whichever is earlier. A week for purposes of this Agreement begins 12:00 a.m. each Monday and continues to midnight (12:00 a.m.) the following Sunday. Franchisee must use Franchisee's best efforts to maximize Gross Receipts.

B. Franchisor has the right to require that various Designated Equipment, Products and/or Services only be supplied by Franchisor, a Franchisor-Related Person/Entity and/or a designee of Franchisor and Franchisor and/or one or more Franchisor-Related Person/Entities may derive additional revenues (and possibly profits) as a result of Franchisee's purchases of such Designated Equipment, Products/Services. Franchisee and Franchisor have agreed on the foregoing royalty rates based, in part, on Franchisee's commitment not to use and/or obtain any such Designated Equipment, Products and/or Services from any source other than the source Franchisor requires. The possibility of such arrangements, and Franchisee's and Franchisor's mutual expectations that Franchisee will faithfully observe Franchisee's obligations to purchase such items as provided in this Agreement, and that the provisions of this subsection will be fully enforceable, form part of the underlying financial and business model on which Franchisee's relationship with Franchisor, and the economic provisions of this Agreement, including Royalty rates, are based.

9.3 Electronic Funds Transfer. Franchisee must participate in Franchisor's Then-Current electronic funds transfer and reporting program(s). All royalties owed and any other amounts designated by Franchisor must be received or credited to Franchisor's account by pre-authorized bank debit by end of business on the 3rd business day after the end of each week.

If a royalty payment is not received when due, to collect the balance of any amounts owed in accordance with this Agreement, Franchisee authorizes Franchisor to debit Franchisee's account by an amount equal to the greater of:

- (i) the minimum continuing royalty; or
- (ii) an amount equal to the average royalty amount due over the most recent 10 weeks for which Franchisor has received Gross Receipts data (the "Average Royalty Amount").

Franchisor's collection of the minimum continuing royalty or the Average Royalty Amount does not constitute a waiver of Franchisor's right to collect the actual amount due or to pursue any and all other remedies available to Franchisor. Any amount collected in excess of the actual amount due may be applied to other amounts due, credited to future amounts coming due, or refunded in Franchisor's sole and unfettered discretion. Any such non-payment or late payment of the actual amount due is a breach of this Agreement. Franchisor can also require that any amounts owed or to be owed to Franchisor and/or any of the Franchisor-Related

Persons/Entities, the Marketing Fund, and FMG and/or any FAC be paid by charges against Franchisee's credit card, and Franchisee must provide Franchisor with appropriate authorizations upon Franchisor's request.

9.4 Interest and Late Fees on Late Payments and/or Reports. All amounts Franchisee owes Franchisor and/or Franchisor Affiliates bear interest at the highest applicable legal rate for open account business credit, but not to exceed one and one-half percent (1.5%) per month. Additionally, Franchisor can require Franchisee to pay an administrative late fee of Seventy-Five Dollars (\$75.00) for each late report and/or late payment. The foregoing amount is subject to inflation adjustment under Section 9.6, but will not exceed any applicable legal restrictions. If Franchisor experiences repeated late payments by Franchisee, then Franchisor can require Franchisee to pay all amounts by cashier's check.

9.5 Application of Payments, Set-Offs etc. As to Franchisee and/or any Affiliate of Franchisee, Franchisor can:

A. apply any payments received to any past due, current, future or other indebtedness of any kind in Franchisor's Business Judgment, no matter how payment is designated by Franchisee, except that Marketing Fund contributions may only be credited to the Marketing Fund;

B. set off, from any amounts that may be owed by Franchisor, any amount owed to Franchisor or any marketing fund; and

C. retain any amounts received for Franchisee's account (and/or that of any Affiliate of Franchisee), whether rebates from suppliers, payment from customers, or otherwise, as a payment against any amounts owed to Franchisor.

Franchisor can exercise any of the foregoing rights in connection with amounts owed to or from Franchisor and/or any Franchisor-Related Person/Entity.

9.6 Inflation Adjustments. Amounts specified as being subject to inflation adjustment may be adjusted by Franchisor annually in Franchisor's Business Judgment in proportion to the changes in the Consumer Price Index (U.S. Average, all items) maintained by the U.S. Department of Labor (or any successor index) as compared to the preceding year. Franchisor will notify Franchisee of any such percentage adjustment.

9.7 Mandatory Regional Leadership Conference(s) Attendance, Possible Absence Fee. Franchisee is required to attend all meetings designated by Franchisor as mandatory (including, without limitation, each Closet Factory Regional Leadership Conference), unless otherwise excused by Franchisor. One management-level individual must attend on behalf of each of Franchisee's Closet Factory Outlets. Franchisor will not charge any attendance fee for one person per Closet Factory Outlet for each mandatory meeting. Franchisee will bear all other costs of attendance, including, but not limited to, purchase of various educational materials supplied at the Conferences. If Franchisee fails to attend a Regional Leadership Conference or other meeting designated by Franchisor as mandatory, Franchisor will charge a Convention Absence Fee of Seven Hundred and Fifty Dollars (\$750.00) (subject to inflation adjustment) per Franchisee, which Franchisee shall pay Franchisor 10 days after the first day of each designated mandatory meeting. The failure to attend the Regional Leadership Conference or timely pay the Convention Absence Fee will constitute an event of default of this Agreement.

10. FRANCHISEE'S CLOSET FACTORY OUTLET — IMAGE AND OPERATION.

To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, Franchisor has established the following requirements:

10.1 System Compliance, Regular Upgrading.

A. Franchisee agrees to operate Franchisee's Closet Factory Outlet in full compliance with the Then-Current Closet Factory System and the Manuals. Franchisee agrees to promptly comply at Franchisee's expense with all Then-Current requirements, standards and operating procedures relating to every aspect of a Closet Factory Outlet and its operations (including, without limitation, use of specified equipment, Products and Services, computer hardware and software; supplier programs and operating systems; signs, logos, designs and advertising/marketing materials and forms; website designs and formats), including upgrading of Franchisee's Closet Factory Outlet and its operations, etc.

B. Franchisee must maintain Franchisee's Closet Factory Outlet at Franchisee's expense according to all Closet Factory standards for new Outlets and promptly undertake all changes as are required by Franchisor from time to time in Franchisor's Business Judgment. If Franchisee fails to do so, Franchisor can do so on Franchisee's behalf. Franchisee agrees to reimburse Franchisor within 10 days of Franchisor's delivery of an account statement. Franchisee will not make any alterations to Franchisee's Closet Factory Outlet or its appearance as originally approved by Franchisor without Franchisor's prior written approval.

C. Franchisee agrees at Franchisee's sole expense that Franchisee and Franchisee's employees will wear the Then-Current Closet Factory career apparel as may be specified from time to time.

D. Franchisee acknowledges and agrees that it may be necessary or advisable for Franchisor, in Franchisor's sole and absolute discretion, to change certain of the characteristics and methods of the Closet Factory System from time to time to meet with changing markets and competition, new laws and regulations, new technological developments, changing demographic factors and other conditions beyond Company's control. Changes to the Closet Factory System may include, without limitation, the adoption and use of new or modified trade names, trademarks, service marks or copyrighted materials, new products and/or deletion of old products, new management practices, new equipment, new colors, decals, decorations, uniforms, signs or trade fixtures, and/or new operating or production techniques. Franchisee will accept, use and display for the purpose of this Agreement any such changes in the Closet Factory System, as if they were part of this Agreement at the time of execution of this Agreement, making such expenditures as such changes or modifications in the Closet Factory System may require, and do so within the time as prescribed by Franchisor.

10.2 Designated Equipment, Products, Services and/or Suppliers.

To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, Franchisor and Franchisee agree as follows:

A. Franchisor has the right to specify Products Franchisee must carry and Services Franchisee must provide. Franchisee agrees to purchase, use and offer such Designated Equipment, Products and Services, as are specified by Franchisor from time to time. Franchisor can designate single or multiple suppliers for any given item or service and may concentrate purchases with one or more suppliers in Franchisor's Business Judgment. Such suppliers may include, and may be limited to, Franchisor and/or companies affiliated

with Franchisor. Franchisee will not offer or deal with any products or services not approved by Franchisor. If Franchisor disapproves a particular item, Franchisee will not use it.

B. Designation of a supplier may be conditioned on factors established by Franchisor in Franchisor's Business Judgment, including, without limitation, performance relating to frequency of delivery, standards of service, and payment or other consideration to Franchisor or parties designated by Franchisor. Franchisor can approve, or revoke or deny approval, of particular items or suppliers in Franchisor's Business Judgment. Franchisor and Franchisor's Affiliates reserve the right to receive rebates, incentive amounts, discounts and other economic benefits from any supplier.

C. Franchisee can request the approval of an item, service or supplier by notifying Franchisor in writing and submitting such information and/or materials Franchisor requests. Franchisor can require Franchisee to pre-pay any reasonable charges connected with Franchisor's review and evaluation of any proposal. Franchisor will notify Franchisee of Franchisor's decision within 60 days.

D. Franchisee will not make any claims against Franchisor with respect to any supplier and/or related Products/Services (and/or Franchisor's designation of, or Franchisor's relationship with, any supplier/Products/Services). Claims by Franchisee with respect to any supplier-related and/or similar matters will be made only against the supplier in question. Franchisee must provide Franchisor with written notice prior to taking any action in connection with such a claim. Franchisor will use diligent efforts to assist Franchisee in resolving any disputes with suppliers approved and/or designated by Franchisor.

10.3 Compliance with Laws and Ethical Business Practices.

To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, Franchisor requires the following:

A. Franchisee will operate Franchisee's Closet Factory Outlet in full compliance with all applicable laws, ordinances and regulations. Franchisee will secure and maintain in force, in Franchisee's name, all required licenses, permits and certificates relating to the operation of Franchisee's Closet Factory Outlet. Among other things, Franchisee will not engage in any illegal discriminatory practices. Franchisor makes no representations or assurances as to what (if any) licenses, permits, authorizations or otherwise will be required in connection with Franchisee's Closet Factory Outlet. It is Franchisee's sole responsibility to identify and obtain all authorizations necessary to Franchisee's operation. Franchisee will maintain high standards of honesty, integrity, fair dealing and ethical conduct in Franchisee's business activities. Franchisee will notify Franchisor in writing within 5 days of the commencement of any proceeding and/or of the issuance of any governmental order or action impacting Franchisee and/or Franchisee's Closet Factory Outlet. If required to do so in Franchisee's state, Franchisee must satisfy the requirements for a contractor's license and will remain in compliance with such requirements. Without limiting the generality of the foregoing, if Franchisee's contractor's license is suspended or revoked, Franchisee's subsequent failure to operate the Franchised Business will not be deemed an abandonment thereof, provided that within 180 days after the effective date of such suspension or revocation 1) Franchisee or Franchisee's Designated Manager, obtains an active contractor's license, as required by law; or 2) Franchisee transfers the business, in accordance with Article 14, to one who does have such license. If the lack of a required license continues for more than 180 days, Franchisee will be deemed to have abandoned the Franchised Business. Thereafter, Franchisee would be in default under this Agreement if Franchisee continued operating the Franchised Business without a license when one is required by applicable law.

B. Franchisee agrees to comply and/or assist Franchisor in Franchisor's compliance efforts, as applicable, with any and all laws, regulations, Executive Orders or otherwise relating to antiterrorist activities, including, without limitation, the U.S. Patriot Act, Executive Order 13224, and related U.S. Treasury and/or other regulations. In connection with such compliance Franchisee certifies, represents and warrants that none of Franchisee's property or interests are subject to being "blocked" under any of the Anti-Terrorism Laws and that Franchisee is not otherwise in violation of any of the Anti-Terrorism Laws. Franchisee agrees not to enter into any prohibited transactions and to properly perform any currency reporting and other activities relating to Franchisee's Franchised Business as may be required by Franchisor or by law. Any violation of the Anti-Terrorism Laws by Franchisee or Franchisee's employees or any "blocking" of Franchisee's assets under the Anti-Terrorism Laws constitute grounds for immediate termination of this Agreement and any other agreements Franchisee has entered into with Franchisor or any of its affiliates, in accordance with the provisions of Section 16.4. Franchisee is solely responsible for ascertaining what actions must be taken by Franchisee to comply with all such laws, orders and/or regulations, and specifically acknowledges and agrees that Franchisee's indemnification responsibilities as provided in Section 7.4 pertain to Franchisee's obligations under this Agreement.

C. In circumstances designated by Franchisor in the Manuals, or where otherwise reasonably required by Franchisor, Franchisee will give those customers who have made complaints appropriate refunds or otherwise deal with such complaints as Franchisor reasonably directs; Franchisee and Franchisor agreeing that such responses to customer complaints are a vital element in maintaining and enhancing the goodwill associated with the Marks. Policies and procedures (including, but not limited to, refunds and credits) adopted by Franchisor for Closet Factory Outlets owned and/or operated by Franchisor and/or Franchisor's Affiliates will be conclusively presumed to be reasonable.

D. Franchisee agrees that Franchisee will neither (a) assign any account for collection, nor employ any collection agency, without obtaining Franchisor's prior approval of the collection agency; nor (b) commence any legal action or proceeding against any customer or former customer (or allowing collection agency to do so) without first submitting such matter for Franchisor's review for a period of 10 days from the time Franchisor receives all documentation pertaining to the account, customer or former customer in question. If Franchisor believes that such legal action is not well founded in law, or is otherwise likely to undermine the objective of the Closet Factory to develop, enhance and expand the customer base (the "Marketing Objective"), or brings disrepute on, the Closet Factory, or is likely to result in disclosure of trade secrets or other confidential business information about the Closet Factory of the Closet Factory System, and so advises Franchisee in writing prior to the expiration of the 10 days referred above, Franchisee will make those modifications to Franchisee's complaint as may be necessary to avoid risks of the kind set forth in this Section 10.3.D. and will obtain Franchisor's approval before filing or serving the complaint. Such approval will not be unreasonably withheld.

E. In the marketing and operation of Franchisee's Closet Factory Outlet, Franchisee must use each of, and only, the contracts, waivers and/or other forms and/or materials as are designated by Franchisor from time to time. Franchisor may provide Franchisee with template or sample forms of such items but it is Franchisee's responsibility to have all such items which are to be used with prospective and/or actual clients/customers reviewed, at Franchisee's expense, by an attorney licensed to practice law in the state(s) where Franchisee's Closet Factory Outlet will be located and/or operate, for compliance with all applicable state legal requirements. Franchisor makes no warranty or representation that any contracts, waivers and/or other forms and/or materials, whether supplied by Franchisor or otherwise, are in compliance with the laws of any particular state(s). Prior to opening, and prior to use of any such items to be used with prospective and/or actual clients/customers, Franchisee must provide Franchisor, at Franchisee's expense, with a letter

from such attorney to Franchisor indicating that he/she has completed such review and that such items to be used with prospective and/or actual clients/customers meet, or have been modified to comply with, all applicable state legal requirements.

F. If any payments are made from the Marketing Fund to complete or correct a job which Franchisee has failed or refused to complete or correct as required by this Agreement, or to defend or settle a lawsuit brought by any of Franchisee's customers or anyone else alleging injury arising out of Franchisee's activities in connection with the Franchised Business, then Franchisee will immediately, on demand by Franchisor, reimburse the Marketing Fund for all such expenditures, together with interest thereon at the rate specified in Section 9.4, above.

I have read this <u>Section 10.3</u> , understand it, and agree with it. Franchisee's Initials: _____ / _____
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10.4 Management and Personnel of Franchisee's Closet Factory Outlet, Training.

A. Franchisee must keep Franchisor advised, in writing, of all management and non-management personnel involved in the operation or otherwise of Franchisee's Closet Factory Outlet. Franchisee's Closet Factory Outlet must be personally managed on a full-time basis by a person who has successfully completed mandatory training and has met Then-Current standards as specified by Franchisor. Franchisor strongly recommends full term on-site management by Franchisee, since absentee management involves a greater risk of failure.

B. Franchisee is solely responsible for the hiring and management of Franchisee's Closet Factory Outlet employees, for the terms of their employment and for ensuring their compliance with any training or other employment related requirements established by Franchisor from time to time in Franchisor's Business Judgment. In the event it becomes necessary for Franchisee to replace Franchisee's Designated Manager, the new manager must be located by Franchisee, and must complete the initial training program (set forth in Article 5, above), all within 90 days after the departure of the former manager.

C. Franchisor has the right to deal with the manager regarding routine operations and reporting requirements. Franchisee must ensure that Franchisor's records for Franchisee's Closet Factory Outlet managers/supervisors are kept current.

10.5 Insurance.

A. Franchisee will maintain in force policies of insurance issued by carriers approved by Franchisor covering various risks, as specified by Franchisor from time to time. Franchisor can specify the types and amounts of coverage required under such policies and require different and/or additional kinds of insurance at any time, including excess liability insurance. Insurance requirements are defined in the Manuals, as modified from time to time. Each insurance policy must:

- 1) name Franchisor and Franchisor's Affiliates as additional named insureds;
- 2) contain a waiver of all subrogation rights against Franchisor, Franchisor's Affiliates and any successors and assigns; and
- 3) provide 30 days' prior written notice to Franchisor of any material modifications, cancellation, or expiration of such policies.

B. If Franchisee fails to maintain required insurance coverage, Franchisor can obtain such insurance coverage on Franchisee's behalf. Franchisee will pay Franchisor on demand any costs and premiums incurred by Franchisor.

C. Current insurance requirements include the following and are subject to change by Franchisor:

1) comprehensive general liability insurance against claims for bodily and personal injury, death and property damage caused by, or occurring in conjunction with, Franchisee's Closet Factory Outlet;

2) all risk, property and casualty insurance for the replacement value of Franchisee's Closet Factory Outlet and all associated items; and

3) business interruption insurance providing for continued payment of all amounts due Franchisor and/or any Affiliate of Franchisor under this Agreement.

10.6 Program Participation. Franchisor can condition Franchisee's participation in any program, or Franchisee's receipt of any Closet Factory System benefits, on Franchisee being in Good Standing.

10.7 Continued Payment of Royalties, etc. During Closure. Franchisee must immediately notify Franchisor of any closure of Franchisee's Closet Factory Outlet for any reason and submit a plan for re-opening. All financial obligations of Franchisee to Franchisor or to any Franchisor-Related Person/Entity (including royalties) will remain in effect during such closure period. Any such closure not authorized and/or excused by Franchisor will be a default of this Agreement, entitling Franchisor to all remedies available under this Agreement, at law and in equity.

10.8 Customer Satisfaction, Quality Controls, etc. Franchisor can institute various programs for auditing customer satisfaction and/or other quality control measures. Franchisor can require Franchisee to pay for such program costs. Franchisee agrees to request Franchisee's customers to participate in any surveys performed by or on behalf of Franchisor, using forms prescribed by Franchisor from time to time.

10.9 Franchisee Advisory Committee and Selection. Franchisor can, in Franchisor's Business Judgment, elect to form a Franchisee Advisory Committee (or multiple committees) (each, a "FAC") to provide Input to Franchisor. A FAC may consist of one or more representatives of Franchisor and one or more franchisees in Good Standing, all of whom may be appointed or elected as determined by Franchisor in Franchisor's sole and unfettered discretion. Appointments and/or elections to a committee will be structured based on Franchisor's Business Judgment. Each member of a FAC will have one vote.

In Franchisor's Business Judgment, Franchisor may direct a FAC to adopt its own bylaws, rules, regulations and procedures. While Franchisor is not required to do so (except as stated in this Agreement),

any matter Franchisor submits for FAC approval for which approval by simple majority is granted, will be binding on Franchisee.

10.10 Co-Branding. Franchisee may not engage in any co-branding in or in connection with the Franchised Business except with Franchisor's prior written consent. Franchisor shall not be required to

approve any co-branding chain or arrangement except in its discretion, and only if Franchisor has recognized that co-branding chain as an approved co-brand for operation within the Closet Factory System. "Co-branding" includes the operation of an independent business, product line or operating system owned or licensed by another entity (not Franchisor) that is featured or incorporated within the Franchised Business or is adjacent to the Franchised Business and operated in a manner which is likely to cause the public to perceive it to be related to the Franchised Business licensed and franchised under this Agreement.

10.11 Improvements. If Franchisee develops any new concept, process or improvement in the Closet Factory System (an "Improvement"), Franchisee shall promptly notify Franchisor and provide Franchisor with all necessary related information, without compensation. Any such Improvement shall become the sole property of Franchisor and Franchisor shall be the sole owner of all related intellectual property rights. Franchisee hereby assigns to Franchisor any rights Franchisee may have or acquire in the Improvements, including the right to modify the Improvement, and Franchisee waives and/or releases all rights of restraint and moral rights therein and thereto. Franchisee shall assist Franchisor in obtaining and enforcing the intellectual property rights to any such Improvement in any and all countries and further agrees to execute and provide Franchisor with all necessary documentation for obtaining and enforcing such rights. Franchisee hereby irrevocably designates and appoints Franchisor as Franchisee's agent and attorney-in-fact to execute and file any such documentation and to do all other lawful acts to further the prosecution and issuance of intellectual property right related to any such Improvement. If the foregoing provisions of this Section 10.11 are found to be invalid or otherwise unenforceable, Franchisee hereby grants Franchisor a worldwide, perpetual, non-exclusive, fully-paid license to use and sublicense the use of the Improvement to the extent such use or sublicense would, absent this Agreement, directly or indirectly infringe Franchisee's rights therein.

10.12 Authorization to Release Information. Franchisee hereby authorizes (and agrees to execute any other documents deemed necessary to effect such authorization) all banks, financial institutions, businesses, suppliers, contractors, vendors and other persons or entities with whom Franchisee does business to disclose to Franchisor any financial information in their possession relating to Franchisee or the Franchised Business which Franchisor may request. Franchisee further authorizes Franchisor to disclose to prospective franchisees or other third parties data from Franchisee's reports if Franchisor determines, in Franchisor's sole discretion, that such disclosure is necessary or advisable.

10.13 Adequate Reserves and Working Capital. Franchisee shall, at all times, maintain adequate reserves and working capital sufficient for Franchisee to fulfill all of Franchisee's obligations under this Agreement and to cover the risks and contingencies of the Franchised Business for at least 3 months.

11. MARKETING

To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, Franchisor has established the following requirements:

11.1 Closet Factory Brand. Franchisee agrees that building and enhancing the Closet Factory Brand is one of the most important objectives for Franchisor and all franchisees, and that the degree of success Franchisor achieves will directly affect each franchisee. Franchisee further acknowledges and agrees that Franchisee's actions affect not just Franchisee's results, but also have an effect on the results obtained by other franchisees throughout the network. Therefore, to ensure consistent promotion of the Closet Factory Brand, Franchisee agrees that Franchisor has the right to control, centralize and make consistent the Brand image, supportive claims, advertising and marketing activities, and put in place the necessary, related business

practices. Specifically, Franchisee agrees that Franchisor has the right to direct all of Franchisee's advertising (national, regional and local) up to the expenditure limits set forth in this agreement.

11.2 Mandatory Marketing Expenditures. Franchisee must spend an amount equal to at least fifteen percent (15%) of Gross Receipts on marketing activities that are approved by Franchisor. Franchisor has the right to specify how these mandatory marketing expenditures are made, whether to a Marketing Fund (see Section 11.6), Franchisee Marketing Group (see Section 11.9), local advertising (see Section 11.8), or otherwise. Franchisor will not direct Franchisee to spend an amount greater than fifteen percent (15%) of Gross Receipts, in the aggregate, to all marketing activities. Franchisee may choose to spend additional amounts for marketing, but those additional amounts will be in addition to and not in lieu of the mandatory marketing expenditures required by this Agreement. If Franchisee wishes to spend less, Franchisee may only do so with Franchisor's express written consent. If Franchisee spends less and Franchisee does not have Franchisor's consent, one-half of the difference between what Franchisee actually spends and fifteen percent (15%) will be paid to Franchisor as an additional Marketing Fund contribution. Currently, any required payments under this Section 11.2 will be determined on a quarterly basis. This additional Marketing Fund contribution will be in addition to current required expenditures and not be credited against any present or future obligations Franchisee may have.

11.3 Franchisor's Rights. Franchisee agrees that Franchisor has the right to:

A. specify, direct and approve all advertising placed by Franchisee or Franchisor on Franchisee's behalf. This is both as to content, placement (media) and in every other regard. It includes the right to:

- 1) specify in which media Franchisee must advertise, and
- 2) specify elements that must be included in advertising and the location of those elements including, but not limited to the Closet Factory logo and Internet Address.

B. compel and direct Franchisee and all other Closet Factory franchisees to participate in local, regional and national advertising up to the advertising maximum limits set forth in this agreement.

C. determine the costs that will be paid by each respective Franchisee when the media selected has circulation in two or more territories. This includes regional and national media, internet advertising, and any and all other forms of advertising.

D. collect up to fifteen percent (15%) of Gross Receipts from Franchisee and place all advertising if Franchisee does not follow the direction given by Franchisor or does not pay for the advertising in a timely manner. Franchisor has the right to charge a reasonable fee for this service.

11.4 Priority of Crediting Marketing Expenditures Against Fifteen Percent (15%) of Gross Receipts. Marketing expenditures must be specified or approved by Franchisor in order to be credited against Franchisee's obligation to spend at least fifteen percent (15%) of Gross Receipts on marketing activities. Approved expenditures are credited in the following order of priority:

A. Marketing Fund contributions specified by Franchisor.

If the Marketing Fund contribution is less than fifteen percent (15%) of Gross Receipts, then any remaining funds will be credited to:

B. Franchise Marketing Group contributions specified by Franchisor.

If the Marketing Fund and Franchise Marketing Group contributions together are less than fifteen percent (15%) of Gross Receipts, then any remaining funds will be credited to:

C. Local advertising contributions specified by Franchisor.

11.5 Advertising Expenditures. Franchisor will determine, in consultation with Franchisee, the amount to be spent on advertising and the media to be used. This will be done in the manner specified in the Manuals.

11.6 Marketing Fund.

A. Franchisor can, in Franchisor's Business Judgment, elect to establish an advertising, publicity and marketing fund (the "Marketing Fund") to promote Closet Factory Outlets and the Brand. Franchisee must contribute to the Marketing Fund an amount specified by Franchisor from time to time which amount will not exceed fifteen percent (15%) of Gross Receipts. Such percentage will be calculated and payable at the same time and in the same manner as percentage and minimum royalties.

B. Franchisor has sole discretion over all matters relating to the Marketing Fund, operational, marketing or any other matter (consistent with its purposes and the provisions of this Agreement). The Marketing Fund may be used for (among other things) product development; signage; creation, production and distribution of marketing, advertising, public relations and other materials in any medium, including the Internet; administration expenses; Brand/image campaigns; media; national, regional and other marketing programs; activities to promote current and/or future Closet Factory Outlets and the Brand; agency and consulting services; research; any expenses approved by Franchisor and associated with a FAC or other Franchisee advisory groups. Among other things, Marketing Fund Contributions may be used for web site development/operation and to pay Internet, Intranet, URL, 800 or similar number, and other charges, fees and/or expenses. A brief statement regarding the availability of Closet Factory franchises may be included in advertising and other items produced using the Marketing Fund.

C. Franchisor and/or any Franchisor-Related Persons/Entities can provide goods, services, materials, etc. (including administrative services and/or "in-house advertising agency" services) and be compensated and/or reimbursed for the same by the Marketing Fund, provided that any such compensation must be reasonable in amount. Franchisor can arrange for goods, services, materials, etc. (including administrative services) to be provided by independent persons/companies and all related costs, fees, etc. will be paid by the Marketing Fund. While Franchisor is not required to do so (except as stated in this Agreement), any matter Franchisor submits for FAC approval for which approval is granted, will be binding on Franchisee.

D. The Marketing Fund will be accounted for separately and may be used to pay all administrative and other costs of the Marketing Fund related to its activities and purposes and/or as authorized by the relevant Franchise Agreements. All taxes of any kind incurred in connection with or related to the Marketing Fund, its activities, contributions to the Marketing Fund and/or any other Fund aspect, whether imposed on Franchisor, the Marketing Fund or any other related party, will be the sole responsibility of the Marketing Fund. Franchisor will prepare financial statements for the Marketing Fund annually, which will be furnished to Franchisee upon written request. Such statements may be audited and any related accounting/auditing costs will be paid by the Marketing Fund. Funds in the Marketing Fund must be expended, prior to termination of the Marketing Fund, only for the purposes authorized by the relevant Franchise Agreement(s). No profit, gain or other benefit will directly accrue to Franchisor from the Marketing

Fund. All interest earned on monies contributed to, or held in, the Marketing Fund will be remitted to the Marketing Fund and will be subject to the restrictions of the relevant Franchise Agreement(s).

E. Financial management of the Marketing Fund will be Franchisor's sole responsibility. Franchisor can, in Franchisor's Business Judgment, do any of the following:

1) compensate ourselves and/or any Franchisor-Related Person/Entity for salaries, administrative costs, overhead and other expenses incurred in Marketing Fund related programs/activities, including but not limited to production, research, insurance, and collection expenses, as well as any legal expense related to the activities and purposes of the Marketing Fund (consistent with the provisions of this Agreement);

2) charge the Marketing Fund for attorneys' fees and other costs related in any way to claims against Franchisor and/or any of the Franchisor-Related Persons/Entities, the Marketing Fund and/or any FMG or FAC, regarding the Marketing Fund. However, Franchisor will be required to reimburse the Marketing Fund for any attorneys' fees and/or costs paid by the Marketing Fund in connection with any action in which Franchisor is finally found to have acted unlawfully or to be guilty of wrongdoing with respect to the Marketing Fund;

3) spend in any fiscal year an amount greater or less than the aggregate contributions to the Marketing Fund in that year, and the Marketing Fund may borrow from Franchisor or other lenders to cover deficits of the Marketing Fund or cause the Marketing Fund to invest any surplus;

4) collect for remission to the Marketing Fund any advertising or promotional amounts offered by any supplier based upon franchisee purchases. Any such contributions, whether or not made with respect to purchases by Franchisee, will not count toward Franchisee's required Fund contributions;

5) pay the advertising, marketing, public relations and related costs involved in any co-branding, dual franchising or other such multi-sponsor programs;

6) revise marketing and other programs, and/or make expenditures from the Marketing Fund, to take account of cultural and other differences (and/or Franchisor can delegate management of a portion of the Marketing Fund in connection therewith);

7) defer, waive and/or compromise claims for current/future contributions to, and/or claims against or with respect to, the Marketing Fund and fund the same with the Marketing Fund;

8) take legal or other action against any Franchisee in default of their obligations to the Marketing Fund;

9) merge the Marketing Fund with any marketing fund otherwise established for Closet Factory Outlets for use as described in this Section 11.6, so long as the restrictions of the relevant Franchise Agreement(s) continue to apply to contributions made by Franchisees under such arrangements;

10) maintain Marketing Fund assets in one or more accounts designated as "trust accounts" for purposes of protecting such assets from claims of third-party creditors (however, such action will not be deemed to create any "trust," "fiduciary relationship" or similar special arrangement);

11) incorporate the Marketing Fund or operate it through an entity separate from Franchisor, which is subject to all rights and duties of Franchisor relating to the Marketing Fund;

12) complete faulty or abandoned work of a Closet Factory Franchisee (or former franchisee);

13) defend (or settle) legal actions and/or administrative proceedings against Franchisor and franchisees who may have been named as defendants or respondents therein, alleging breach of any legal duty or violation of any law or regulations, if such action or proceeding is of a kind which, in Franchisor's sole discretion, is likely to injure the reputation or goodwill of the Closet Factory, its Marks, or the Marketing Objective;

14) carry on litigation to protect or defend the Marks or to prevent the infringement of the Marks; provided that the damage recovery obtained in any such action, after payment of costs of suit and attorneys' fees, will be paid over to the Marketing Fund that financed such litigation;

15) pay premiums on one or more policies of liability insurance covering actions of the kind set forth in this Paragraph 11.6.E.;

16) reimburse Franchisor for the costs and expenses of organizing and conducting Regional Leadership Conferences and other synergistic events that Franchisor may create from time to time, including the reasonable compensation of Franchisor's employees while working on such meetings; and

17) take such other actions in connection with the Fund as Franchisor considers to be appropriate and is consistent with the provisions of this Section 11.6.

F. Franchisee acknowledges and agrees that Franchisor has no obligation to ensure that expenditures by the Marketing Fund or FMG are or will be proportionate or equivalent to contributions to the Marketing Fund by Closet Factory Outlets operating in any geographic area, or that any Closet Factory Outlet will benefit directly, indirectly or in proportion to its contribution to the Marketing Fund or FMG. Franchisor has no obligation to cause other Closet Factory Outlets to contribute to the Marketing Fund or engage in local marketing, and Franchisor can permit a franchisee to make direct advertising expenditures in place of contributions to the Marketing Fund. Franchisee understands that some Closet Factory franchisees may have Marketing Fund obligations that are different from Franchisee's, if any. However, all Closet Factory Outlets owned by Franchisor will make contributions to the Marketing Fund as if they were subject to the Then-Current form of Franchise Agreement.

G. Neither Franchisor (nor any of the Franchisor-Related Persons/Entities, including the Marketing Fund and/or any FMG or FAC) will be liable for any act or omission in connection with the Marketing Fund which is consistent with this Agreement or which is done in subjective good faith. Franchisee and Franchisor expressly agree that none of the relationships with Franchisee in connection with the Marketing Fund are in the nature of a "trust," "fiduciary" or similar special arrangement.

H. Subject to the express requirements of this Agreement that Franchisee contributions will only be spent as authorized in this Agreement, Franchisee agrees that Franchisor can deny access to any and all programs and/or materials created by, and benefits of, the Marketing Fund to Franchisee and to any franchisees who are not in Good Standing.

I. Any use of the Internet, World Wide Web or other electronic media by Franchisee in connection with Franchisee's Closet Factory Outlet is prohibited by Franchisor. If Franchisor allows such use in the future, among other things, Franchisor can require that any such use be through Franchisor, using a designated Internet/Intranet Service Provider (which can be Franchisor or an Affiliate), and that all pages be accessed through a designated site and/or meet Franchisor's specifications. In such an event, Franchisor can require Franchisee to pay by credit card, bank auto-draft, or other method required by Franchisor, an Internet/Intranet Service Fee, that Franchisor can collect in advance on an annual or other basis. Such Fee is subject to periodic adjustment by Franchisor.

11.7 Franchisee's Participation in the Marketing Fund. Franchisee agrees to participate in all Marketing Fund programs. Franchisee has the right to set Franchisee's own prices, except that Franchisor can specify maximum prices for goods or services to the greatest degree permitted by law. Franchisee must fully honor all coupons, price reduction and other promotions/programs as directed by Franchisor. The Marketing Fund may furnish Franchisee with marketing, advertising and promotional materials; however, Franchisor can require that Franchisee pay the cost of producing, shipping and handling for such materials.

11.8 Franchisee's Local Closet Factory Outlet Marketing Activities.

A. Franchisee must spend for local advertising and promotion of Franchisee's Closet Factory Outlet each royalty period the amount specified by Franchisor from time to time, an amount not to exceed fifteen percent (15%) of Gross Receipts after crediting expenditures made to the Marketing Fund and Franchise Marketing Groups. Franchisor may collect funds and purchase local advertising for Franchisee or direct Franchisee to make local advertising expenditures and require Franchisee to submit verification of Franchisee's expenditures in a form prescribed by Franchisor in Franchisor's Business Judgment. Appropriate local advertising expenditures may include, but are not limited to, classified telephone directory listings and advertising. The value of discounts, coupon redemptions and/or products or services given without charge will not be considered to meet Franchisee's local advertising obligation under this Section 11.8.

B. Franchisee's advertising must be in good taste and conform to ethical and legal standards and Franchisor's requirements. Samples of all advertising and promotional materials (and any use of the Marks and/or other forms of commercial identification) for any media, including the Internet, World Wide Web or otherwise, must be submitted to Franchisor for Franchisor's review and consent prior to use, which approval Franchisor can condition or withhold in Franchisor's Business Judgment. Franchisee agrees not to use any materials or programs disapproved by Franchisor at any time in Franchisor's Business Judgment and Franchisee must use all materials and programs designated by Franchisor as mandatory. Franchisor can require that a brief statement regarding the availability of Closet Factory franchises be included in advertising used by Franchisee and/or that brochures regarding purchase of Closet Factory franchises be displayed in Franchisee's Closet Factory Outlet.

C. Franchisee shall not separately register any domain name or any portion of any domain name containing the Marks or participate or market on any website or other form of electronic media (including, without limitation, through the use of social technology, social media, social networking platforms or other forms of electronic media not yet developed) using the Marks without prior express written approval from Franchisor. Franchisee's general conduct on the Internet and in the use of other forms of electronic media is subject to the terms and conditions of this Agreement and all other rules, requirements or policies that Franchisor may identify from time to time. Franchisee's website, if any, shall only be accessed through Franchisor's home page. Franchisee will provide Franchisor with all proposed content for Franchisor's Internet marketing programs, and will sign Internet and intranet usage agreements, if any, as requested by Franchisor.

Franchisor retains the right to approve any linking or other use of its website. Franchisor may, at any time after Franchisee commences use of any approved electronic media, prohibit further use, effective upon receipt of written notice by Franchisee.

11.9 Franchisee Marketing Group(s) ("FMG"). Franchisor can, in Franchisor's Business Judgment, elect to form one or more associations and/or sub-associations of Closet Factory Outlets to conduct various marketing-related activities on a cooperative basis (a "FMG"). If one or more FMGs (local, regional, national, or otherwise) are formed covering Franchisee's Closet Factory Outlet, then Franchisee must join and actively participate. Each Closet Factory franchisee in Good Standing will be entitled to one vote per territory for each such territory that the franchisee owns and that is included in that particular FMG. Franchisee can be required to contribute such amounts as are determined from time to time by Franchisor and such FMGs. Each FMG can adopt its own bylaws, rules, regulations and procedures, subject to Franchisor's consent in Franchisor's Business Judgment, provided that Franchisor has and will retain final control over all advertising, promotions, marketing, development, and protection plans and expenditures. Any failure to timely pay amounts due to, or to comply with the bylaws, rules, regulations and procedures of a FMG, is a breach of this Agreement. Franchisor can offset against amounts Franchisor or any Affiliate owes to Franchisee the amount of Franchisee's unpaid FMG obligations. Franchisor may collect funds and purchase advertising for a FMG or direct the FMG to make advertising expenditures. Franchisor can appoint one representative to participate in all FMG meetings and activities as a non-voting participant. While Franchisor is not required to do so (except as stated in this Agreement), any matters Franchisor submits for approval to a FMG of which Franchisee is a member and for which approval is granted, will be binding on Franchisee.

11.10 Payment for Leads. Franchisor may provide Franchisee with potential customer leads obtained through the internet or other sources. For each such lead that Franchisor provides to Franchisee, Franchisee must pay Franchisor a fee between \$30 and \$75 per lead referred, which will be set by Franchisor using Franchisor's Business Judgment.

11.11 Promotional Campaigns. From time to time during the term of this Agreement, Franchisor shall have the right to establish and conduct promotional campaigns on a national or regional basis, which may by way of illustration and not limitation promote particular products or marketing themes. Franchisee shall participate in such promotional campaigns upon such terms and conditions as Franchisor may establish. Franchisee acknowledges and agrees that such participation may require Franchisee to purchase point of sale advertising material, posters, flyers, product displays and other promotional materials.

12. CLOSET FACTORY OUTLET RECORDS AND REPORTING.

12.1 Bookkeeping, Accounting and Records, Computer and Other Systems. Franchisee must obtain and maintain at Franchisee's sole expense accounting, sales, reporting and records retention systems conforming to any requirements prescribed by Franchisor from time to time, including electronic systems with online access for Franchisor. Such systems may include, but are not limited to, computer systems, and software programs, and may have components only available from Franchisor, a Franchisor-Related Person/Entity and/or designated suppliers. Franchisor reserves the right to use, and to have full access to, all computer and any other systems, and the information and data they contain, including, but not limited to, all business records, whether written, electronic or otherwise. Franchisor can charge a reasonable fee for the license, modification, maintenance or support of software or any other goods and/or services that Franchisor furnishes to Franchisee in connection with any of the systems.

12.2 Reports, Financial Statements and Tax Returns.

A. Franchisee will provide to Franchisor such information regarding the sales and operation of Franchisee's Closet Factory Outlet, and in such form and format, as Franchisor may specify from time to time in Franchisor's Business Judgment. Franchisor can elect to obtain such information through a variety of methods, including direct online access, facsimile transmissions and written copies. Current information requirements include, but are not limited to, the following, and are subject to change by Franchisor:

- 1) Sales and operations reports for each week, which are due at the same time as the corresponding royalty payment; and
- 2) within 45 days after the end of each fiscal year, an unaudited fiscal year-end balance sheet and income statement for Franchisee's Closet Factory Outlet, prepared in accordance with generally accepted accounting principles, and verified and signed by Franchisee;
- 3) retention of all records of or relating to Franchisee's Closet Factory Outlet, including all income, sales and other tax returns, for the Term of this Agreement and 3 years thereafter;
- 4) customer lists and potential customer leads upon request by Franchisor; and
- 5) any other records Franchisor deems necessary in Franchisor's Business Judgment.

B. Franchisee agrees to provide such other data, information and supporting records for Franchisee's Closet Factory Outlet as Franchisor reasonably may request from time to time, including, without limitation, copies of Franchisee's sales tax returns and those portions of Franchisee's income tax returns relating to Franchisee's Closet Factory Outlet. Franchisor can require Franchisee to provide Franchisor, at Franchisee's expense, with an annual audited financial statement prepared by a certified public accountant.

13. INSPECTIONS AND AUDITS.

To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, Franchisor has the following rights:

13.1 Franchisor's Inspections, etc. Franchisor and/or Franchisor's agents will have the right, at any time during business hours, and without prior notice to Franchisee, to:

- A. inspect Franchisee's Closet Factory Outlet and related activities and items and record the activities (on audio and/or video media) of same;
- B. remove samples for testing and analysis;
- C. interview supervisorial or managerial personnel;
- D. interview customers;
- E. conduct inventories; and

F. confer with the staffs of government agencies with respect to matters related to the Franchised Business and to share any information in Franchisor's possession, as Franchisor deems appropriate in Franchisor's Business Judgment.

Franchisee will cooperate fully in connection with such matters. Franchisor can require Franchisee or an individual designated by Franchisor to meet at Franchisor's headquarters or other location designated by Franchisor, for the purpose of discussing and reviewing Franchisee's Closet Factory Outlet's operations, financial performance and other matters.

13.2 Audit. Franchisor and/or Franchisor's agents will have the right at any time during business hours, and without prior notice to Franchisee, to inspect and/or audit properties, assets, premises, business records relating in any way to Franchisee's Closet Factory Outlet and the books and records of any person(s), corporation or partnership which holds, or does business with, the Franchise. Such business records may include, but are not limited to, bookkeeping and accounting records, payroll records, check stubs, sales and income tax records and returns (Franchisee waiving all privileges with respect thereto), invoices, and deposit receipts. Franchisor's right to audit includes the right to access all computers and other equipment by electronic means. Franchisee will cooperate fully with such an audit. Notwithstanding any provision to the contrary in this Agreement or otherwise, Franchisor's audit rights will continue in effect for 2 years after the termination, expiration, transfer or otherwise of this Agreement and/or any successor franchise. Franchisor's or Franchisee's failure to exercise any rights to conduct an audit will not act as a waiver of any rights or constitute a lack of diligence for purposes of the delayed discovery doctrine or otherwise.

13.3 Gross Receipts Understatements. If any inspection or audit discloses an understatement of Gross Receipts, Franchisee must pay to Franchisor the royalties and marketing contributions due on the understated amount, plus interest, from the date originally due until the date of payment. Franchisor can require Franchisee to reimburse Franchisor for the cost of the inspection or audit, including, without limitation, the charges of any independent accountants, and related travel and per diem charges for Franchisor and their employees, if:

A. any inspection or audit is necessary because of Franchisee failure to timely furnish required information/reports; or

B. Gross Receipts are understated for any period by more than two percent (2%).

In addition to all other remedies and rights of Franchisor under this Agreement or under applicable law, Franchisor has the right to Terminate this Agreement if:

C. Gross Receipts are understated for any period by more than five percent (5%); or

D. any understatement is determined by Franchisor to be intentional.

14. TRANSFER.

14.1 Transfers by Franchisor. This Agreement, and any or all of Franchisor's rights and/or obligations under it, are fully transferable by Franchisor in Franchisor's Business Judgment, in whole or in part, without Franchisee consent; provided that any such transferee appears at the time of the transfer to have financial resources reasonably appropriate to fulfill its obligations under this Agreement. For the purposes of this Section 14.1, Franchisor will be entitled to rely upon financial statements provided to Franchisor by the transferee. If Franchisor transfers this Agreement, only the transferee will have obligations to Franchisee and Franchisor's obligations (and those of any of the Franchisor-Related Persons/Entities, the Marketing Fund and/or any FMG or FAC) will be extinguished.

A. Franchisee specifically acknowledges and agrees that Franchisor or its Affiliate can:

- 1) be sold and/or Franchisor can sell any or all of Franchisor's intellectual property and/or other assets (including the Marks);
- 2) go public;
- 3) engage in a private or other placement of some or all of Franchisor's securities;
- 4) merge, acquire other entities and/or assets (competitive or not);
- 5) be acquired by a competitive or other entity;
- 6) and/or undertake any refinancing, leveraged buy-out and/or other economic or financial restructuring.

With regard to any of the above sales, assignments and dispositions, Franchisee expressly and specifically waives any claims, demands or damages arising from or related to the loss of Franchisor's name, the Marks (or any variation thereof) or Closet Factory System and/or the loss of association with, or identification of, Closet Factory Franchise Corporation, as Franchisor under this Agreement. Franchisee specifically waives any and all other claims, demands or damages arising from or related to the foregoing merger, acquisition and other business combination activities including, without limitation, any claim of divided loyalty, breach of fiduciary duty, fraud, breach of contract or breach of the implied covenant of good faith and fair dealing. Franchisee agrees that Franchisor has the right, now or in the future, to purchase, merge, acquire or affiliate with an existing competitive or non-competitive franchise network, chain or any other business regardless of the location of that chain's or business' facilities, and to operate, franchise or license those businesses and/or facilities as the Closet Factory Franchised Businesses operating under the Marks or any other marks following Franchisor's purchase, merger, acquisition or affiliation, regardless of the location of these facilities (which Franchisee acknowledges may be proximate to the Franchised Business).

Franchisee agrees that Franchisor will have no liability to Franchisee resulting from Franchisor entering into any transactions permitted under this Agreement. Franchisor also may, on a permanent or temporary basis, delegate any or all of Franchisor duties to another company to perform. In such event, Franchisee will look only to such other company for the performance of such duties.

14.2 Transfers by Franchisee.

A. The rights and duties created by this Agreement are personal to Franchisee (or Franchisee's owners, if the Franchisee is a Business Entity). Franchisor has awarded the Franchise relying on the individual integrity, ability, experience and financial resources of Franchisee or such owners. Therefore, to protect the Closet Factory System, the Marks and the goodwill associated with the Marks, neither this Agreement, the Franchise, the Franchisee nor Franchisee's Closet Factory Outlet (or any interest in, or the assets of, any of them) can be transferred without Franchisor's prior written approval. Any transfer or attempted transfer without Franchisor's approval is null and void.

B. The term "transfer" includes (but is not limited to) any voluntary or involuntary assignment, sale, gift, pledge or any grant of any security or other interest (whether partial or whole, or direct or indirect), by Franchisee (or Franchisee's owners, if the Franchisee is a Business Entity).

A transfer also includes the following events:

- 1) any transfer of ownership of capital stock or any partnership or similar interest;
- 2) any merger, consolidation or issuance of additional securities representing an ownership interest in the Franchisee;
- 3) any sale of voting stock of the Franchisee or of any security convertible to voting stock;
- 4) any transfer in a corporate or partnership dissolution, divorce, insolvency proceeding or otherwise by operation of law;
- 5) any transfer of any interest in any revenues, profits, or assets of Franchisee's Closet Factory Outlet and which is not in the ordinary course of business; or
- 6) any transfer to a business entity and/or a trust or similar entity.

A transfer of ownership, possession or control of Franchisee's Closet Factory Outlet, or of its assets, can only be made with a transfer of the Franchise. Any transfer in the event of death or disability will be governed by Section 14.5.

14.3 Conditions for Approval of Any Transfer.

A. All of the following conditions must be met prior to, or concurrently with, the effective date of any transfer. Franchisor can waive any condition in Franchisor's sole and absolute discretion.

1) Franchisee must be in compliance with this Agreement, the Manuals, all other agreements between Franchisee and Franchisor (including any of Franchisor's respective Affiliates), and all leases/subleases with any party, and the transferee must expressly assume all obligations under all such agreements; and

2) The transferee and its owners must meet Franchisor's Then-Current requirements for new franchisees, including but not limited to business experience, aptitude and financial resources; and

3) Franchisee must meet all payment and reporting obligations under the Franchise Agreement and any other agreements between Franchisee and Franchisor (and any of Franchisor's respective Affiliates). Promissory notes will be accelerated and paid in full; and

4) All obligations to third parties in connection with Franchisee's Closet Factory Outlet must be satisfied or assumed by the transferee; and

5) Franchisee's Closet Factory Outlet and its operations must have been brought into full compliance with the Manuals and specifications and standards then-applicable for new Closet Factory Outlets; and

6) At Franchisor's option, the transferee must successfully complete, or agree to complete, Franchisor's training program for new franchisees; and

7) The transferee and each partner, shareholder or member of the transferee, as the case may be, must be a United States citizen or lawful resident alien of the United States and must have sufficient literacy and fluency in the English language sufficient, in Franchisor's opinion, to communicate with employees, customers, and suppliers of Franchisor and to satisfactorily complete Franchisor's required training program and such other tests and interviews as Franchisor shall reasonably deem to be necessary or desirable. Franchisee shall provide Franchisor with such information as Franchisor may require to make a determination concerning such proposed transfer; and

8) The transferee must, at Franchisor's option, (a) agree to be bound by all the terms and conditions of this Agreement for the remainder of the Term, or (b) execute Franchisor's Then-Current form of Franchise Agreement and ancillary documents (including lease/subleases and guarantees) as are then customarily used by Franchisor in the award of franchises for Closet Factory Outlets (which may, among other things, provide for higher royalties, advertising fund/marketing contributions and materially different rights and obligations than are provided in this Agreement and may not include the terms of any amendments or addenda to this Agreement); provided, however, that no initial franchise fee will be required. The term of such new Franchise Agreement will be for the balance of the Term of this Agreement unless 1) the transferee elects to extend the remaining Term to a full Term then being offered, 2) Franchisor approves that extension, and 3) transferee pays Franchisor a pro-rated renewal fee, which amount is in addition to any transfer fee. The pro-rated renewal fee will be calculated based on the following formula: $(\text{Pro-rated renewal fee}) = (\text{current renewal fee}) \times (\text{months in a full term less the months remaining in transferred term}) / (\text{months in a full term})$. By way of example, if the current renewal fee is Seven Thousand Dollars (\$7,000), the remaining term is twenty-four (24) months and a current full term is sixty (60) months, the pro-rated renewal fee would be Seven Thousand Dollars $(\$7,000) \times (60-24)/(60)$ or Four Thousand Two Hundred Dollars (\$4,200.00); and

9) At Franchisor's request, Franchisee, as assignor, shall execute a continuing guarantee in favor of Franchisor of the performance and payment by the proposed transferee, as assignee, of all obligations and debts to Franchisor and its affiliates under the new Franchise Agreement; and

10) The transfer must be completed in compliance with the terms of any applicable leases and other agreements and with all applicable laws, including but not limited to licensing and operations-related laws and/or laws governing franchise sales; and

11) Franchisee or the transferee must pay Franchisor with Franchisee's application for a transfer a non-refundable "Transfer Fee" of Eighteen Thousand Five Hundred Dollars (\$18,500), subject to inflation adjustment as provided in Section 9.6, above; and

12) Franchisee and each of Franchisee's owners and/or Affiliates, and the transferee (and each owner and/or Affiliate of the transferee), must sign a General Release; and

13) Any grant of a security or similar interest in connection with a transfer (which grant may or may not be permitted by Franchisor in Franchisor's Business Judgment), will be subordinated to Franchisor's rights and the rights of any Franchisor Related Person/Entity under the Franchise Agreement or any other agreement; provided that Franchisor can refuse to allow Franchisee or anyone else to grant or receive a pledge, mortgage, lien or any security or similar interest in and/or to the Franchise or the Franchised Business (or any of its assets) if, after having expended commercially reasonable efforts in discussions with lenders or other applicable parties, Franchisor is unable in Franchisor's Business Judgment to obtain appropriate protections for Franchisor's rights under this Agreement and/or for Closet Factory System interests; and

14) The sales price of the interest to be conveyed must not be so high, or the terms of the sale so onerous, that, in the judgment of Franchisor, the transferee will be unlikely to properly maintain, operate and promote the Closet Factory Outlet and meet the transferee's financial and other obligations to Franchisor, third party suppliers and creditors. This provision shall not create any liability to either transferor or transferee on the part of Franchisor, in the event that Franchisor approves the transfer and the transferee experiences financial difficulties; and

15) Franchisee must agree with the transferee not to compete after the transfer in accordance with restrictions acceptable to Franchisor and substantially similar to those described in Section 8.2(B), above, to the maximum extent permitted by law. Franchisor will be named a third party beneficiary of such agreement; and

16) Franchisor can (but is not required to) withhold or condition Franchisor's consent to any transfer in Franchisor's Business Judgment, particularly if Franchisor believes that the terms of transfer jeopardizes the economic viability of the franchise or based on other circumstances of the transfer, and/or if Franchisor would not normally directly award a franchise in such a situation.

B. Franchisee agrees that Franchisor can (but is not required to) discuss with Franchisee and/or the proposed transferee any matters related to any transfer and/or proposed transfer at any time which Franchisor considers to be appropriate in Franchisor's Business Judgment without liability (including Franchisor's opinion of the terms of sale, performance of Franchisee's franchise, etc.). Franchisee expressly consents to any such discussions by Franchisor.

C. Neither Franchisee nor any transferee will rely on Franchisor to assist in the evaluation of the terms of any proposed transfer. Franchisee acknowledges and agrees that an approval of a proposed transfer will not be deemed to be an approval of the terms, nor any indication as to any likelihood of success or economic viability.

14.4 Additional Conditions for Transfer to a Business Entity. Franchisor will consent to a transfer from Franchisee to a Business Entity entirely owned by Franchisee and formed for the sole purpose of operating the Closet Factory Outlet if the conditions described in 14.3, above, and the conditions set forth in Section 14.4.A through H (below) are met. Such a transfer will not relieve Franchisee of Franchisee's

obligations under this Agreement. Franchisee will remain jointly and severally liable to Franchisor for Franchisee and the Business Entity's obligations.

A. The Business Entity's stock certificates (and/or other applicable evidences of ownership and all documents of formation/governance) must recite that any ownership interest in the Business Entity is restricted by the terms of this Agreement; and

B. Franchisee must have (and continue to maintain) management control and ownership of at least fifty-one percent (51%) of the Business Entity and personally manage its affairs; and

C. The individual Franchisee (or, if the Franchisee is a partnership, at least one of the partners) must be and remain the chief executive officer, chief operating officer or chief financial officer and meet Franchisor's Then-Current training requirements. If the Franchisee is or becomes a corporation, LLC, partnership or other business entity, the chief executive officer, chief operating officer or chief financial officer of such entity must always meet all of Franchisor's Then-Current training and other standards; and

D. The transferee must enter into an approved form of assignment in which the Business Entity assumes all of the Franchisee's obligations under this Agreement and any other agreements with Franchisor and/or a Franchisor-Related Person/Entity, and any other documents Franchisor can require as provided in 14.3(A)(7), above; and

E. All current and future owners of the Business Entity must agree in writing to comply with this Agreement and any other agreements with Franchisor and/or any Franchisor-Related Persons/Entities, including the Marketing Fund. Franchisor can, at Franchisor's option and in Franchisor's Business Judgment, require any and all owners and their spouses or domestic partners to jointly and severally guarantee (in a written form approved by Franchisor) any such obligations of the Business Entity under any such agreements. The current approved form of Owner's Guaranty is attached as Exhibit 14.4 to this Agreement; and

F. No public offerings of debt or equity ownership in the transferee entity can be conducted, and no shares of any type issued, without obtaining Franchisor's prior written consent; and

G. Franchisor can require that each of the present and/or future shareholders, directors, and/or officers execute confidentiality and non-competition agreements with terms substantially similar to those described in Sections 8.1 and 8.2, respectively.

H. In any event, Franchisor can withhold or condition Franchisor's consent to any transfer as Franchisor deems appropriate in Franchisor's Business Judgment, based on the circumstances of the transfer or otherwise.

14.5 Death or Disability of Franchisee.

A. If the Franchisee, or if the owner of the Franchisee with a controlling interest, dies or is permanently disabled, then his or her interest in this Agreement, the Franchise and/or the Franchisee will be transferred to a third party subject to all of the provisions of this Article 14. A "permanent disability" occurs if Franchisee is not able to personally, actively participate in the management of Franchisee's Closet Factory Outlet for 6 consecutive months. Any transfer under this Article 14 must be completed within 6 months from the date of death or permanent disability. If no transfer occurs, the Franchise will automatically terminate at the end of such period, unless a written extension is granted by Franchisor in Franchisor's Business Judgment.

B. Franchisor can (but is not required to) operate the Franchised Business on Franchisee's behalf and at Franchisee's expense in the event of Franchisee's death, disability or absence. Franchisor can pay itself a reasonable amount for Franchisor's management services and other costs. Franchisor will use reasonable efforts and business judgment in managing the business, but will in all cases be indemnified by Franchisee (and/or Franchisee's estate) against any costs and/or liabilities related in any way to Franchisor's management and the operation of the Franchised Business. Franchisor is expressly authorized by Franchisee to manage in good faith and on terms that Franchisor considers appropriate in Franchisor's Business Judgment, including payment of any past, current and/or future obligations to Franchisor or to any other creditor out of assets and/or revenues of the Franchised Business.

14.6 Effect of Consent to Transfer. Franchisor's consent to a transfer is not a waiver of any claims Franchisor may have against Franchisee, and Franchisee is not relieved of any obligations to Franchisor or any Franchisor-Related Persons/Entities and/or the Marketing Fund (including any defaults by any transferee). Any dispute regarding any proposed or completed transfer will be resolved through the dispute resolution provisions of this Agreement. Neither Franchisor nor any Franchisor-Related Persons/Entities, or the Marketing Fund and/or any FMG or FAC, will have any liability to Franchisee or any proposed or actual transferee in connection with Franchisor's examination and/or possible consent or withholding of consent involving any transfer or proposed transfer, or Franchisor's exercise of any right of Franchisor, which is consistent with this Agreement. Franchisee agrees to indemnify and hold Franchisor harmless from any liability to Franchisee, the proposed transferee or otherwise.

14.7 Franchisor's Right of First Refusal.

A. Franchisor has a right of first refusal regarding any proposed transfer subject to this Agreement, excluding only those transfers which are subject to Section 14.4. For each non-excluded proposed transfer, Franchisee will provide Franchisor with a true and complete copy of the offer received by Franchisee (and any ancillary agreements), and the conditions to transfer described in Sections 14.3 and 14.4, as applicable, will be met. The offer and the price and terms of purchase must apply only to an interest in this Agreement, the Franchise, Franchisee's Closet Factory Outlet or the Franchisee. Any value attributable to the goodwill of the Marks, Closet Factory System elements, Confidential Information or any other assets, tangible or intangible, related to the Closet Factory Brand and System will be excluded from the purchase price, but goodwill related solely to the value of Franchisee's Closet Factory Outlet as a going business will be included, if Franchisor is purchasing Franchisee's Closet Factory Outlet as a going business.

B. Franchisor will give Franchisee written notice of Franchisor's decision to exercise Franchisor's right of first refusal within thirty (30) days from the date of Franchisor's receipt of the offer and ancillary documents. If any of the assets to be purchased do not meet the standards Franchisor then applies to new Closet Factory Outlets, or if Franchisee is in default, Franchisor can require that the Closet Factory Outlet be brought into compliance and any defaults cured before the thirty (30) day period begins. Franchisor can substitute cash for any form of payment proposed in such offer and will have a reasonable period of time in which to prepare for the close of the transaction, generally sixty (60) days. The purchase price to be paid by Franchisor will be the price specified in the proposed transfer, less the value attributable to the goodwill of the Marks, Closet Factory System elements, Confidential Information or any other assets, tangible or intangible, related to the Closet Factory Brand and System. Franchisor will be entitled to purchase any interest subject to all Customary Representations, Warranties and Agreements. Franchisor can require that the closing of the sale be through an escrow. Franchisee and Franchisor will comply with any applicable bulk sales and/or similar laws, and Franchisee will maintain all insurance policies until the date of closing. Franchisor will have the right to set off against any amount of money payable by Franchisor all amounts due from Franchisee and/or

Franchisee's Affiliates to Franchisor and/or Franchisor's Affiliates. Franchisor will also have the right, in Franchisor's Business Judgment, to pay any amount otherwise payable to Franchisee directly to Franchisee's creditors in satisfaction of Franchisee's obligations. If Franchisee violates any of Franchisee's obligations that expressly or by their nature survive this Agreement, Franchisor will not be obligated to pay any amount otherwise due or payable to Franchisee thereafter. In connection with such purchase, Franchisee and each transferor (and Franchisee's respective Affiliates) will sign a General Release.

C. If Franchisor does not exercise Franchisor's right of first refusal, Franchisee can complete the sale to such purchaser on the exact terms of such offer, subject to the conditions of this Article 14. If there is a material change in the terms of the sale, Franchisor will have an additional right of first refusal on the same terms and conditions as are applicable to the initial right of first refusal. Franchisor rights under this or any other Section are fully assignable.

14.8 Franchisor's Right to Purchase Any or All of the Assets of Franchisee's Closet Factory Outlet on Expiration or Termination at Fair Market Value.

A. Franchisor has a right, but not an obligation, to repurchase Franchisee's Franchise, Franchisee's Franchised Business and/or the assets of Franchisee's Franchised Business (or any portion of those assets use in, or in connection with Franchisee's Franchised Business) (the "Repurchase"). Franchisor can exercise this right in Franchisor's Business Judgment by giving Franchisee written notice on or within one hundred and twenty (120) days of Termination or expiration.

B. The Repurchase price will be established subject to the following limitations. If Franchisee and Franchisor fail to agree on the Repurchase price, then the Fair Market value will be determined by an independent appraiser selected by Franchisee and Franchisor and subject to the limitations provided in this Agreement. If Franchisee and Franchisor fail to agree on an appraiser, Franchisee and Franchisor will each select one appraiser, who together will select a third appraiser. The Fair Market value will be deemed to be the average of the three (3) independent appraisals. All sales, transfer and/or similar taxes are to be paid by Franchisee. Any going concern value of the Franchised Business will be factored into the Repurchase price, but in no event will the Repurchase price include:

1) any goodwill or other monetary factor for the Marks, Closet Factory System elements, Confidential Information, Intellectual Property or any other assets, tangible or intangible, which are proprietary to Franchisor and/or a Related Party; and/or

2) any assets which are not bona fide Franchise assets integrally related to the operation of the Franchised Business, or which fail to meet Franchisor's standards, in Franchisor's Business Judgment.

Pending the closing of such a Repurchase, Franchisor will have the right to appoint a manager to maintain the operation of Franchisee's Franchise. Franchisee will forever indemnify and hold Franchisor harmless against all obligations incurred in connection with the business prior to purchase. Franchisee will furnish Franchisor with a complete list of accounts unpaid by Franchisee within ten (10) days of Franchisor notice of intent to exercise this option. Franchisor can (but is not required to) pay these unpaid bills directly to the parties owed and deduct them from the purchase price in lieu of paying such portion of the purchase price directly to Franchisee.

C. The Post Termination Provisions will be continuing obligations of Franchisee. Franchisor will receive all Customary Representations and Warranties from Franchisee, Franchisee's owners and Franchisee's Affiliates in connection with any such Repurchase. Franchisor can require that the closing of the sale be through an escrow. Franchisee and Franchisor will comply with any applicable bulk sales and/or similar laws, and Franchisee will maintain all insurance policies until the date of closing. Franchisor will also have the right, in Franchisor's Business Judgment, to pay any amounts otherwise payable to Franchisee directly to Franchisee's creditors in satisfaction of Franchisee's obligations. If Franchisee violates any of Franchisee's obligations that expressly or by their nature survive this Agreement, Franchisor will not be obligated to pay any amount otherwise due or payable to Franchisee thereafter.

D. Any Repurchase price to be paid under this Section 14.8 will be paid, at Franchisor's sole option, either in cash at closing, or under an unsecured, interest-free promissory note, as follows: twenty percent (20%) at closing, : twenty percent (20%) no later than 90 days after closing, : twenty percent (20%) no later than 180 days after closing, twenty percent (20%) at the first anniversary date of the closing, and the final : twenty percent (20%) at the second anniversary date of the closing. Franchisor can offset against the Repurchase price, and any installments thereof, any amounts owed by Franchisee (or any Affiliates) to Franchisor (and/or any Franchisor-Related Persons/Entities, and/or the Marketing Fund or any FMG). In connection with Franchisor's exercise of any rights under this Section 14.8, Franchisee (and each owner/Affiliate) will execute a General Release.

E. Franchisor will not assume, or have any responsibility for, any liabilities, debts or obligations of Franchisee, and Franchisee will indemnify Franchisor and each of the Franchisor-Related Persons/Entities, and the Marketing Fund and any FMG or FAC, from any and all claims by third parties arising out of, or related in any way to, any Repurchase. Notwithstanding the foregoing sentence, costs paid or incurred in connection with the transaction, including but not limited to, all appraisal fees and closing costs, will be shared equally between Franchisee and Franchisor, but excluding attorneys' fees paid or payable to the respective attorneys for the parties. Franchisee and Franchisor will comply with all applicable laws in connection with any such Repurchase and will cooperate in complying with all such requirements.

F. Franchisee's rights and Franchisor's obligations under this Agreement will Terminate on the date the above-described Repurchase becomes effective. If Franchisee fails to complete or to continue to comply with any surviving obligation(s), Franchisor will not be obligated to pay any portion of the Repurchase price otherwise due or payable following such failure, in addition to any other remedies to which Franchisor is otherwise entitled, such amounts having been selected in view of the extreme difficulty in estimating possible damages arising from such breaches.

G. No disagreement about the value of such goodwill or equipment, or about any other matter, nor the institution of any legal proceedings to establish or to challenge such valuation or any other matters, shall delay transfer of said assets to Franchisor. Franchisor will obtain title to the same upon exercise of Franchisor's right to repurchase, and Franchisee will deliver possession of the same and will execute and deliver appropriate documents of transfer to Franchisor at once; but each party will retain its right to institute or continue proceedings in connection therewith unless otherwise agreed by both parties after expiration or termination. Company will be entitled to obtain an injunction to enforce the provisions of this Section 14.8.

15. SUCCESSOR FRANCHISE.

15.1 Franchisee's Rights. If Franchisee is awarded this Agreement for an initial or successor term of Franchisee franchise, then this Agreement shall terminate at the expiration of that initial or successor term.

Franchisee will be eligible to be awarded a Successor franchise upon expiration of the initial term or any successor term, subject to the provisions of this Article 15. The Successor Franchise Agreement may (and probably will) differ materially from this one in financial and other ways and terms. The Successor term will be a 5 year period.

15.2 Notice of Election. Franchisee must give Franchisor written notice of election to obtain the Successor franchise not less than 6 months, but not more than 12 months, before the expiration of the initial term of this Agreement. Within 90 days after Franchisor's receipt of the notice, Franchisor will give to Franchisee in writing:

1) any reasons which could cause Franchisor to not award the Successor franchise, including any deficiencies requiring correction; and

2) Franchisor's Then-Current requirements relating to the image, appearance, decoration, furnishing, equipping, stocking and programs for a Closet Factory Outlet (collectively, the "specifications and standards then-applicable for new Closet Factory Outlets and with the Manuals").

15.3 Conditions to the Award of a Successor Franchise. Any award of the Successor franchise must meet all of the following conditions, together with the Then-Current standards applicable to Successor franchisees, each of which are agreed to be reasonable:

- A. Franchisee (and each Affiliate of Franchisee) must be in Good Standing; and
- B. Franchisee's Closet Factory Outlet and its operations must fully comply with all specifications and standards then-applicable for new Closet Factory Outlets and with the Manuals by the expiration of this Agreement; and
- C. Franchisee (and each Affiliate of Franchisee) must have paid all amounts owed to Franchisor, any Franchisor-Related Persons/Entities and/or the Marketing Fund and any FMG; and
- D. Franchisee must have executed Franchisor's Then-Current form of Franchise Agreement and related documents then customarily used by Franchisor (with appropriate modifications to reflect the fact that the Franchise Agreement to be awarded relates to a single Successor franchise as contemplated by this Agreement). Franchisee will not be required to pay the Then-Current Initial Franchise Fee, and Franchisor will not be required to provide Franchisee any site location, initial training or other "start-up" services in connection with the award of any Successor franchise; and
- E. Franchisee must have complied with Franchisor's Then-Current qualification and training requirements. Franchisor can require Franchisee's personnel to successfully complete any retraining program(s), at such times and location(s) as Franchisor then specifies. There will be no charge for any retraining program(s), but Franchisee will be responsible for all travel, meals, lodging and other expenses of Franchisee's personnel; and
- F. Franchisee (and each owner and/or Affiliate of Franchisee) must have executed a General Release, except for any claims exclusively related to the successor franchise (where expressly so required by applicable law); and

G. Franchisee must have paid Franchisor a successor fee of Seven Thousand Dollars (\$7,000.00). The fee must be received from Franchisee at the time of Franchisee's election and is non-refundable unless Franchisor does not grant a Successor agreement to Franchisee.

Failure by Franchisee and/or Franchisee's owners to timely complete such requirements will be deemed an election by Franchisee not to obtain the successor franchise.

Franchisee understands and agrees that Franchisor has the right to refuse to award a successor franchise if, in Franchisor's reasonable judgment, Franchisee (or any affiliate of Franchisee) have failed to render satisfactory performance as a Franchisee in any operational or other areas (including, but not limited to, safety, compliance with all Manuals, adverse impact on the Marks and associated goodwill, etc.), whether or not such failure constitutes or constituted a default.

Franchisee acknowledges and agrees that any award of any successor after the initial successor franchise will be governed by the provisions on successor franchises of the franchise agreement that Franchisee is then operating under and those provisions may materially differ from the provisions of this Agreement.

15.4 Operation after Expiration – Holdover Status. If this Agreement expires without being extended by a successor agreement or otherwise, Franchisor may, in Franchisor's sole discretion, allow Franchisee to continue operating Franchisee's Closet Factory Outlet in Holdover Status. Franchisee agrees that if Franchisee is allowed to operate in Holdover Status that Franchisee will be bound by all of the terms of this Agreement (including, but not limited to, all operational requirements and mandatory marketing expenditures) provided, however, that Franchisee will pay Franchisor a minimum continuing royalty amount of One Thousand Two Hundred Dollars (\$1,200.00) per week or thirteen and one-half percent (13.5%) of Gross Receipts, whichever is greater, in lieu of the minimum continuing royalty amount specified in Section 9.2 above. Franchisor's acceptance of any amounts paid by Franchisee during the Holdover Status does not constitute a waiver of any of Franchisor's rights upon expiration of the Agreement and Franchisor may terminate Franchisee's permission to operate in Holdover Status immediately upon notice to Franchisee. Should Franchisee's franchise agreement be subsequently renewed, the higher royalty rate during Franchisee's operation in Holdover Status will not be retroactively reduced.

16. TERMINATION OF THE FRANCHISE.

16.1 Defaults with No Right to Cure. This Agreement will automatically Terminate upon delivery of Franchisor's written notice of Termination to Franchisee in compliance with Article 20 (without further action by Franchisor and without opportunity to cure) if Franchisee or any of Franchisee's owners:

A. fail to timely meet the site selection, development, opening and other requirements (including, but not limited to, training requirements for Franchisee and Franchisee's Designated Manager) provided in this Agreement, any other Franchise Agreement, any Area Development Agreement, or otherwise;

B. abandon or fail to operate Franchisee's Closet Factory Outlet for more than 5 consecutive calendar days, or lose the right to possession of the premises and do not relocate Franchisee's Closet Factory Outlet in accordance with this Agreement;

C. make any material misrepresentation or omission in Franchisee's application for the Franchise, including (but not limited to) failure to disclose any prior litigation or criminal convictions (other than minor traffic offenses);

D. are judged bankrupt, become insolvent, make an assignment for the benefit of creditors, fail to pay Franchisee's debts as they become due, or a petition under any bankruptcy law is filed by or against Franchisee or any of Franchisee's owners, or a receiver or other custodian is appointed for a substantial part of the assets of Franchisee's Closet Factory Outlet;

E. are convicted of, or plead no contest to, a felony, or to any crime or offense that is likely to adversely affect the reputation of the Franchisee or any owner, Franchisee's Closet Factory Outlet, Franchisor or the goodwill associated with the Marks;

F. engage in any misconduct which unfavorably affects the reputation of the Franchisee or any owner, Franchisee's Closet Factory Outlet, Franchisor or the goodwill associated with the Marks (including, but not limited to, child abuse, health or safety hazards, drug or alcohol problems, or permitting unlawful activities at Franchisee's Closet Factory Outlet);

G. make, or attempt to make, an unauthorized "transfer" as defined in this Agreement, surrender control without Franchisor's prior written approval, or make any purported assignment or transfer of any direct or indirect interest in this Agreement, in Franchisee, or in all or substantially all of the assets of the Franchised Business, whether individually or collectively, to any third party without Franchisor's prior written consent, or any transfer of forty-nine percent (49%) or more of the capital stock membership interests, partnership rights, or other equity interests of Franchisee;

H. make an unauthorized use of the Marks or any unauthorized copy, use or disclosure of any Confidential Information;

I. violate any of the In Term or Post Term Restrictions against competition provided in Section 8.2, above (or any other person identified therein commits such a violation);

J. purchase Closet Factory Brand (or any other brand) Products and Services from any supplier other than Franchisor or its Authorized Suppliers, and Franchisee fails to cure such defaults within 3 days after receiving notice to do so from Franchisor;

K. commit any act or omission of fraud or misrepresentation, whether with respect to Franchisor, any of the Franchisor-Related Persons/Entities and/or the Marketing Fund and/or any FMG and/or any third party, including (but not limited to) any misrepresentation of Gross Receipts;

L. have 5 or more material customer complaints with respect to Franchisee's Closet Factory Outlet in any 12-month period, whether or not resolved;

M. fail to permit or cooperate with Franchisor or Franchisor's designee in any audit or inspection or fail to retain (or to produce on request) any records required to be maintained by Franchisee;

N. fail, for a period of 10 days after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to the operation of the Franchised Business;

O. violate any law pertaining to the operation of the Franchise Business whether or not Franchisee receives notice of non-compliance.

16.2 Defaults with Right to Cure. This Agreement will automatically Terminate on delivery of Franchisor's written notice of Termination to Franchisee in compliance with Article 20 (without further action by Franchisor and without further opportunity to cure beyond that set forth in this Article 16):

A. 10 Day Cure. If within 10 calendar days after delivery of Franchisor's written notice to Franchisee, Franchisee or any of Franchisee's owners do not cure any:

- 1) failure to maintain required insurance;
- 2) failure to correct any condition that, in Franchisor's reasonable judgment, might pose a danger to public health and/or safety;
- 3) failure to report accurately Gross Receipts or fail to submit any other report due under this Agreement or any lease/sublease in accurate and complete form and when required;
- 4) failure to make payments of any amounts due Franchisor, any Franchisor-Related Person/Entity, any designee of Franchisor and/or any supplier/creditor of Franchisee);
- 5) failure to maintain any bank account, which is to be used for pre-authorized bank debits for amounts to become due to Franchisor, or any of Franchisor's affiliates or designees, as open and funded sufficiently to meet all reasonably anticipated debits and charges; provided that Franchisee can close any such account if Franchisee (a) provides Franchisor with 30 days' prior written notice, (b) immediately establishes and adequately funds a replacement account, (c) executes and delivers to Franchisor and the bank all documents reasonably requested by Franchisor and/or the bank with respect to the new account so as to, among other things, allow Franchisor to make debits as authorized by this Agreement or otherwise, and (d) complies with all other reasonable requirements and procedures of Franchisor.
- 6) failure to comply with any of the dispute resolution provisions of this Agreement.

With respect to subsections 16(A)(1) and/or 16(A)(2) above, Franchisor can require Franchisee to immediately cease all operations until such defaults are fully cured.

B. 30 Day Cure. If within 30 calendar days after delivery of Franchisor's written notice to Franchisee, Franchisee or any of Franchisee's owners do not cure any:

- 1) default under the lease or sublease for Franchisee's Closet Factory Outlet within the applicable cure period set forth in the lease or sublease. If the applicable cure period set forth in the lease or sublease is less than 30 days, then that applicable cure period will apply;
- 2) delinquency in Franchisee's obligations to taxing authorities, landlords, equipment lessors, suppliers or others;
- 3) failure to comply with any other provision of this Agreement, any other agreement with Franchisor and/or any Affiliate of Franchisor, or any specification, standard or operating procedure or rule in the Manuals or otherwise prescribed by Franchisor in writing which does not provide for a shorter notice period.

If a default under this Section 16.2(B) cannot reasonably be corrected within 30 days, then Franchisee must undertake diligent efforts within the 30-day period to come into full compliance. On Franchisor's request, Franchisee must furnish proof acceptable to Franchisor of such efforts and the date full compliance will be achieved. In any event, all such defaults must be fully cured within 60 days after delivery to Franchisee of the initial written notice to Franchisee of Termination.

16.3 Repeated Defaults. This Agreement will automatically Terminate upon delivery of Franchisor's written notice of Termination to Franchisee in compliance with Article 20 (without further action by Franchisor and without opportunity to cure) if Franchisee or any Affiliate has committed 2 or more applicable defaults within any 12 consecutive months, or 3 or more applicable defaults within any 24 consecutive months. An "applicable default" is a single breach of any obligation under this Agreement and/or the Manuals, or under any other agreement with Franchisor and/or any of Franchisor's Affiliates, whether or not such default is cured, or is the same as or similar to a prior event of default.

16.4 Cross-Defaults. Any default by Franchisee (or any owner or Affiliate of Franchisee) under this Agreement can be regarded by Franchisor as a default under any other agreement between Franchisor (or any Franchisor-Related Persons/Entities and/or the Marketing Fund or any FMG) and Franchisee (or any owner or Affiliate of Franchisee). Similarly, any default by Franchisee (or any owner or Affiliate of Franchisee) under any other agreement or any other obligation between Franchisor (or any Franchisor-Related Persons/Entities and/or the Marketing Fund or any FMG) and Franchisee (or any owner or Affiliate of Franchisee) can be regarded as a default under this Agreement. Any default by Franchisee (or any owner or Affiliate of Franchisee) under any lease, sublease, loan agreement, or security interest relating to the Franchised Business can be regarded as a default under this Agreement, regardless of whether or not any such agreements are between Franchisee (or any owner or Affiliate of Franchisee) and Franchisor (or any Franchisor-Related Persons/Entities).

16.5 Non-Exclusive Remedies. Whenever Franchisor has a right to Terminate this Agreement, Franchisor (and any Franchisor-Related Person/Entity) will have all remedies allowed at law and in equity. No right or remedy which Franchisor and/or any Franchisor-Related Person/Entity may have under this Agreement or otherwise (including Termination) is exclusive, and Franchisor and/or any Franchisor-Related Person/Entity may pursue any rights and/or remedies available at law and/or in equity. If Franchisor has the right to Terminate this Agreement, Franchisor can elect in Franchisor's Business Judgment to cancel any and/or all of Franchisee territorial or similar rights whether arising under this Agreement or in any other manner or document.

16.6 No Equity on Termination, etc. Franchisee's rights regarding the Franchise are controlled by the provisions of this Agreement. Franchisee will have no equity or any other continuing interest in the Franchise, any goodwill associated with it, or any right to compensation or refunds at the expiration and/or Termination of the Franchise.

16.7 Extended Cure Period. Notwithstanding anything to the contrary in this Agreement, Franchisor reserves the right to grant to Franchisee in Franchisor's Business Judgment an extended cure period for any breach. Franchisee acknowledges and agrees that Franchisor's decision to grant such an extended cure period will not operate as a waiver of any of Franchisor's rights and that Franchisor can choose to condition any such an extension upon the signing of a General Release by Franchisee, each owner and Affiliate of Franchisee.

16.8 Management of the Closet Factory Outlet After Issuance of Notice of Default.

A. To protect the Closet Factory System, the Marks and the goodwill associated with the Marks, if after Franchisor issues a notice of default, Franchisor will have the right (but not the obligation) to manage Franchisee's Closet Factory Outlet until Franchisee has cured all defaults. All revenues received by the Closet Factory Outlet while Franchisor (or Franchisor's designee) is managing it will be kept in a separate fund. All Closet Factory Outlet expenses, including compensation, travel and living expenses for Franchisor's appointed manager may be paid out of such fund. Franchisor will be paid Five Hundred Dollars (\$500) per day as a management fee (subject to adjustment as provided in Section 9.6). If such fund is insufficient to pay Closet Factory Outlet expenses, Franchisor will notify Franchisee. Franchisee must, within 5 business days, deposit such amounts as will be required by Franchisor to attain a reasonable fund balance.

B. Operation of the Closet Factory Outlet by Franchisor during any such period will be on Franchisee's behalf; provided that Franchisor will only have a duty to use reasonable efforts and will not be liable to any creditor of Franchisee or for any debts, losses or obligations incurred by the Closet Factory Outlet. If Franchisor elects to assume management of the Franchised Business following a default by Franchisee, (i) Franchisor's election will not relieve Franchisee of Franchisee's obligations under this Agreement; (ii) Franchisor will not be liable for any debts, losses, costs or expenses incurred in the operation of the Franchised Business during any such management period; and (iii) Franchisee agrees to, and hereby does, indemnify and hold Franchisor harmless against any and all claims, demands, judgments, fines, losses, liabilities, costs, amounts paid in settlement and reasonable expenses (including, but not limited to attorneys' fees) incurred in connection with the management of the Franchised Business, other than those arising solely from the gross negligence or willful misconduct of Franchisor. This Section 16.8 will not limit Franchisor's right to Terminate this Agreement as provided in this Agreement or affect any of Franchisor's indemnity or other rights under this Agreement.

16.9 Franchisor's Right To Discontinue Supplying Items Upon Default. If Franchisor delivers a notice of default to Franchisee, Franchisor and/or each Franchisor-Related Persons/Entity have the right to (a) require that Franchisee pay cash in advance, C.O.D. (i.e., cash on delivery) or by certified check for goods/services and/or (b) stop selling and/or providing any goods/services to Franchisee, including lead generation or any support services, until Franchisee has cured all defaults. No such action by Franchisor and/or any Franchisor-Related Persons/Entity shall be a constructive termination of this Agreement, change in competitive circumstances or similarly characterized, and Franchisee agrees that Franchisee will not be relieved of any obligations under this Agreement because of any such action.

16.10 Prompt Notice of Claims by Franchisee. Franchisee understands that Franchisee is not permitted to terminate this Agreement for any default committed by Franchisor, except as permitted by applicable law. If Franchisee claims that such a default exists (or that Franchisee has any other basis for terminating Franchisee's obligations and Franchisor's rights under this Agreement or making any other claim against Franchisor), Franchisee must give Franchisor written notice and 30 days to cure; any action by Franchisee to terminate will not proceed until Franchisor has had such notice and an opportunity to cure. If Franchisor cannot reasonably cure within such 30 day period, and Franchisor is diligently continuing efforts to cure, then Franchisor will have 90 days to cure; provided that:

A. any dispute regarding Franchisor's withholding consent with respect to a proposed transfer by Franchisee, or any other dispute in which delay may cause Franchisee significant harm or loss, may be immediately processed as provided in Section 19.2; and

B. any claim for equitable relief with respect to a dispute under Section 19.2 (H) will not be subject to this Section 16.10. Any applicable statutes of limitations will be tolled during such 30 and 90-day periods.

16.11 Operation after Termination – Holdover Status. If this Agreement is terminated and Franchisee continues to operate Franchisee's Closet Factory Outlet, Franchisee will be bound by all of the terms of this Agreement (including, but not limited to, all operational requirements and mandatory marketing expenditures) provided, however, that Franchisee will pay Franchisor a minimum continuing royalty amount of One Thousand Two Hundred Dollars (\$1,200.00) per week or thirteen and one-half percent (13.5%) of Gross Receipts each week, whichever is greater, in lieu of the minimum continuing royalty amount specified in Section 9.2 above. Franchisor's acceptance of any amounts paid by Franchisee during the Holdover Status does not constitute a waiver of any of Franchisor's rights upon termination of the Agreement.

17. RIGHTS AND OBLIGATIONS ON TRANSFER, REPURCHASE, TERMINATION AND/OR EXPIRATION OF THE FRANCHISE.

17.1 Payments of All Amounts Owed, etc. Franchisee must pay all royalties, marketing contributions and all amounts of any kind owed to Franchisor and/or any Franchisor-Related Persons/Entities, and the Marketing Fund and/or any FMG, within ten (10) days after the Repurchase, Termination or expiration of the Franchise, or from a later date when the amounts due can be determined.

17.2 Intellectual Property, Confidential Information, Trade Dress, etc. After any Transfer, Repurchase, Termination or expiration of the Franchise:

A. Franchisee agrees to immediately and permanently discontinue Franchisee's Closet Factory Outlet and any use of the Intellectual Property and/or the Confidential Information, as defined in Article 22, and will not use any similar or derivative marks, or materials, or colorable imitations of any of the Intellectual Property in any medium or manner or for any purpose;

B. Franchisee must return to Franchisor or (at Franchisor's option) destroy all software, Manuals, forms, materials, signage and any other items containing any Intellectual Property or Marks, or otherwise identifying or relating to a Closet Factory Outlet, including, but not limited to, all business records, however constituted, whether written, electronic, or otherwise (to the extent they have not been assigned in connection with an authorized Transfer or a Repurchase);

C. Franchisee must take such actions as may be required to cancel all fictitious or assumed name or equivalent registrations relating to Franchisee's use of any Mark which have not been assigned in connection with an authorized Transfer or a Repurchase;

D. Franchisee must remove from the Premises any distinctive signage, physical and/or structural features associated with the Trade Dress of Closet Factory Outlets, so that the Premises are clearly distinguished from other Closet Factory Outlets and do not create any public confusion (to the extent they have not been assigned in connection with an authorized Transfer or a Repurchase);

E. Franchisee agrees not to identify itself, or any business Franchisee may operate or in which Franchisee may become involved, or to advertise or promote itself in any manner, as a present or former Closet Factory franchisee;

F. Franchisee must immediately and permanently cease using, by advertising or in any other manner whatsoever, any confidential methods, procedures, and techniques associate with the Closet Factory System, and all Marks, Products, Services and distinctive forms, slogans, signs, symbols, and devices associated with the Closet Factory System; Franchisee acknowledges and agrees that the use of the Marks after termination or expiration of this Agreement constitutes an unauthorized use of an identical mark and Franchisor shall be entitled to damages due to, but not limited to, trademark infringement and counterfeiting.

G. Franchisee must furnish to Franchisor within thirty (30) days satisfactory evidence of Franchisee's compliance with the obligations described in this Section 17.2 and in Section 17.3, below. If Franchisee operates any business using any of the Intellectual Property, Marks, Confidential Information or any aspect of the Closet Factory System, Franchisor's remedies will include (but not be limited to) recovery of the greater of (1) all profits earned by Franchisee in the operation of such business, or (2) all royalties, advertising contributions and other amounts which would have been due if this Agreement remained in effect with Franchisee.

17.3 Telephone and Other Directory Listings, Internet Sites.

A. Franchisee understands and agrees that Franchisor owns all telephone numbers used in connection with Franchisee's Closet Factory Outlet business (including pager, cellular, and fax), domain names, Internet addresses/sites and/or other communications services links (collectively, the "Numbers"), and any related directory listings/advertising, used in connection with the operation of Franchisee's Closet Factory Outlet. Franchisor can, in Franchisor's Business Judgment, require Franchisee to sign an assignment of such Numbers prior to training or at another time. After any Termination, Repurchase and/or expiration of the Franchise, Franchisee must promptly transfer, call-forward, discontinue or otherwise deal with the Numbers and any related directory listings/advertising as Franchisor directs. Franchisee agrees to sign any documents and/or pay any amounts required by a telephone/communication services provider as a condition to Franchisor's exercising any rights under this Section 17.3. Franchisee agrees to sign all releases and other documents (including those providing that Franchisee indemnify and hold harmless any service provider and Franchisor) required by any service provider and/or Franchisor in connection therewith. Franchisor's Then-Current Assignment of Phone Number form must be executed prior to corporate training. By signing this Agreement, Franchisee irrevocably appoints Franchisor as Franchisee's attorney in fact to take any such actions regarding the Numbers and any related directory listings/advertising if Franchisee does not do so within 10 days after the Termination, Repurchase or expiration of this Franchise. Such companies may accept this Agreement as conclusive evidence of Franchisor's exclusive rights in such Numbers and related directory listings, web pages and advertising/marketing.

B. If Franchisor chooses at any time to be directly billed by a provider for any account for the Numbers and/or directory listings/advertising, Franchisee agrees to pay Franchisor all amounts due to such providers within 10 days of Franchisor's written notice to Franchisee. If Franchisee fails on 2 or more occasions to pay any such amounts to Franchisor when due, then Franchisor can require Franchisee to maintain a deposit with Franchisor in an amount reasonably determined by Franchisor based upon usage history and other relevant factors.

17.4 Continuing Obligations.

A. All obligations and rights which expressly or by their nature survive the Transfer, Repurchase, Expiration or Termination of this Agreement will continue in full force and effect until they are satisfied or by their nature expire (including but not limited to indemnity, non-competition and confidentiality rights and

obligations; obligations to pay and the provisions of Articles 19 and 21). These obligations continue notwithstanding any rejection of this Agreement in a bankruptcy proceeding or otherwise.

B. If this Agreement is Terminated because of a default by Franchisee, Franchisee will not be released or discharged from Franchisee's obligations, including payment of all amounts then due and other amounts which would have become due under this Agreement if Franchisee had continued in operation as a Closet Factory Franchisee for the full term. Franchisor's remedies will include (but are not limited to) the right to collect the present value of these amounts and to receive the benefit of Franchisor's bargain with Franchisee, as well as to accelerate the balances of any promissory notes owed and to receive any other unpaid amounts owed to Franchisor or any Affiliates of Franchisor. Franchisee and Franchisor agree that it would be commercially unreasonable and damaging to the integrity of the Closet Factory system if a Closet Factory Franchisee could default and then escape the financial consequences of his contractual commitment to meet payment obligations for the term of the Franchise Agreement. Franchisee (and each of Franchisee's owners/Affiliates) agrees to sign a General Release if Franchisor chooses in Franchisor's Business Judgment to waive any of Franchisor's rights to collect any amounts that would have become due if Franchisee had continued in operation as a Closet Factory Franchisee. This option of Franchisor may be exercised at any time.

I have read Sections 17.1-17.4, understand them, and agree with them.

Franchisee's Initials: _____ / _____

18. GRANT OF SECURITY INTEREST.

For valuable consideration, to secure payment and performance of all debts, liabilities and obligations of any kind, whenever and however incurred, from Franchisee (and/or any Affiliate of Franchisee) under this Agreement or any other agreements, Franchisee hereby grants to Franchisor a security interest in this Agreement, all proceeds of Franchisee's Closet Factory Outlet, and in all of the assets, including equipment, furniture, fixtures and signs, used by, at or in connection with, Franchisee's Closet Factory Outlet and its related business, now or hereafter acquired by Franchisee, together with all accounts, payment intangibles, attachments, accessories, additions, substitutions and replacements, all cash and non-cash proceeds derived from insurance or the disposition of such assets, all of Franchisee's rights to use the Marks, trade names, trade styles, patents, copyrights and their registrations, trade secret information and other proprietary rights, and all rights granted, owned or licensed to Franchisee under this Agreement for the use of the Marks, trade names, trade styles, patents, copyrights, trade secret information and other proprietary rights (the "Collateral"). Franchisee will not remove the Collateral or any portion thereof without Franchisor's prior written consent. Franchisee represents and warrants that the security interest granted is prior to all other security interests in the Collateral except for (i) bona fide purchase money security interests and (ii) the security interest granted to a third party in connection with Franchisee's original financing for Franchisee's Closet Factory Outlet, if any. In connection with any request for Franchisor's approval of a security interest, if Franchisee is in Good Standing, Franchisor will make commercially reasonable efforts to accommodate reasonable lender's requirements, including the subordination of Franchisor's interests to the lender's and/or lessor's, as applicable, in Franchisor's Business Judgment, bearing in mind the interests of the borrower, lender, ourselves and the Closet Factory System. On the occurrence of any event entitling Franchisor to Terminate this Agreement or any other agreement between the parties, or if Franchisor reasonably determines that Franchisor is not assured that Franchisee (and/or any Affiliates') obligations will be timely and fully paid and/or performed, Franchisor will have all the rights and remedies of a secured party under the Uniform Commercial Code of the State in which Franchisee's Closet Factory Outlet is located, including, without limitation, the right to take possession of the Collateral. In such event, Franchisee shall remain liable for any deficiency remaining due to Franchisor and shall be entitled to recover any surplus which results after the application of the

proceeds derived from the enforcement of the security interest. Franchisee hereby consents to Franchisor filing any documents necessary to perfect the security interest in the Collateral and Franchisee must execute and deliver to Franchisor Uniform Commercial Code financing statements and/or such other documents as Franchisor reasonably deems necessary to perfect Franchisor interest in the Collateral within 10 days of Franchisee's receipt of such documents from Franchisor.

I have read this Article 18, understand it, and agree with it.
Franchisee's Initials: _____ / _____

19. DISPUTE AVOIDANCE AND RESOLUTION – MANDATORY BINDING ARBITRATION.

For purposes of this Article 19, "Franchisee" includes all of Franchisee's owners, Affiliates and their respective employees, and "Franchisor" includes all of the "Franchisor-Related Persons/Entities."

19.1 FUNDAMENTAL BUSINESS INTENTION TO MEDIATE AND/OR ARBITRATE, SEVERABILITY OF PROVISIONS, MODIFICATION OF AGREEMENT TO COMPLY WITH APPLICABLE LAW, FEDERAL ARBITRATION ACT GOVERNS, ETC.

A. It's Franchisee's and Franchisor's fundamental agreement not to engage in court proceedings, except in the rare instances specified in this Agreement, but rather to have disputes resolved through face-to-face meetings, mediation and binding arbitration. Franchisee and Franchisor agree Franchisor's activities relating to the franchise relationship are in interstate commerce and that this agreement is governed by the Federal Arbitration Act.

B. Franchisee and Franchisor view mediation and binding arbitration to be generally superior to court proceedings, as often being time and cost efficient, and allowing Franchisee and Franchisor to use mediators/arbitrators with substantial franchising experience, while understanding that costs to Franchisee and/or Franchisor of face-to-face meetings, mediation, arbitration and/or appeal of arbitration, as provided in this Agreement, may sometimes be greater than in civil litigation or may make it more difficult for Franchisee or Franchisor to proceed.

THEREFORE, IF ANY PROVISION OF THIS AGREEMENT IS DEEMED BY A COURT TO BE UNCONSCIONABLE, VOID, VOIDABLE, AGAINST PUBLIC POLICY, UNDULY RESTRICTIVE OF CONSTITUTIONALLY OR STATUTORILY PROVIDED RIGHTS OR OTHERWISE UNENFORCEABLE, FRANCHISEE AND FRANCHISOR INTEND AND AGREE THAT (I) SUCH PROVISION WILL BE MODIFIED OR RESTRICTED BY THE ARBITRATOR OR COURT SO AS TO BE ENFORCEABLE OR (II), IF SUCH PROVISION CANNOT BE MODIFIED OR RESTRICTED, IT WILL BE SEVERED AND, TO THE MAXIMUM DEGREE POSSIBLE, THE REMAINING PORTIONS KEPT INTACT, VALID AND IN FULL FORCE AND EFFECT, SO AS TO ACCOMMODATE FRANCHISOR'S FUNDAMENTAL AGREEMENT TO ENGAGE IN A FACE-TO-FACE MEETING, MEDIATION AND BINDING ARBITRATION/ARBITRATION APPEAL, ETC. AS PROVIDED IN THIS AGREEMENT.

For example, if a court or arbitrator finds that the potentially higher costs of mediation, arbitration, appeal or otherwise would make mediation and/or arbitration commitments, with respect to constitutionally or statutorily provided rights or otherwise, unconscionable, against public policy or otherwise unenforceable as to Franchisee or Franchisor, then Franchisee and Franchisor intend and agree that a court or arbitrator address such a finding by, as soon as possible, allocating between Franchisee and Franchisor the fees of a

mediator, arbitrator(s) and/or their related organizations, or requiring Franchisor to advance a portion of such fees subject to possible reimbursement or otherwise addressing such issues so that such fees to be paid by Franchisee will not exceed those which Franchisee would incur in litigation, and the mediation/arbitration/appeal will proceed.

Similarly, if any provision of this Agreement would illegally deny Franchisee or Franchisor unwaivable constitutionally or statutorily provided rights or otherwise, such provision will be modified or restricted, or, if necessary, severed by the determining court or arbitrator, so as to preserve such constitutional or statutory rights, while keeping the remaining provisions of this Agreement intact.

C. Franchisee and Franchisor reserve the right to challenge any law, rule or judicial or other construction which effectively varies, or renders without effect, any provision of this Agreement. If any limitation of rights is held unenforceable with respect to one party, then such limitation shall also be unenforceable as to the other party.

D. This Agreement will be deemed automatically modified to comply with governing law if such law requires a greater time period for notice of the Termination of, or refusal to renew, this Agreement or otherwise.

19.2 FACE-TO-FACE MEETING, MEDIATION AND MANDATORY BINDING ARBITRATION. Franchisee and Franchisor believe that it's important to resolve all disputes effectively and professionally and to return to business as soon as possible. Franchisee and Franchisor agree that the provisions of this Article 19 support these business objectives and, therefore, agree as follows:

A. Dispute Resolution Process: Any litigation, claim, dispute, suit, action, controversy, or proceeding of any type whatsoever, including any claim for equitable relief and/or in which a party is acting as a "private attorney general," suing pursuant to a statutory claim or otherwise, between or involving Franchisee and Franchisor (and/or any Affiliate of either), on whatever theory and/or facts based, and whether or not arising out of this Agreement ("Claim"), will be exclusively processed in the following manner, except as expressly provided at Section 19.2 F, to the extent applicable and not contrary to applicable law:

1) First, discussed in a face-to-face meeting (at a neutral location reasonably near Franchisee's Closet Factory Outlet) within 30 days after either Franchisee or Franchisor give written notice to the other proposing such a meeting;

2) Second, if not resolved by that meeting, submitted to non-binding mediation for a minimum of 8 hours before (a) The American Arbitration Association ("AAA") or its successor or (b) Judicial Arbitration and Mediation Service ("JAMS") or its successor if the AAA cannot conduct such mediation. The mediator shall be a neutral person experienced in franchising. Franchisor will pay the costs of the first eight (8) hours of any mediation, and no mediation is required to extend beyond such 8 hour period. Any party may be represented by counsel and may, with permission of the mediator, bring persons appropriate to the proceeding.

3) Third, if not resolved through mediation, resolved through binding arbitration before and in accordance with the arbitration rules of (a) The American Arbitration Association ("AAA") or its successor or (b) Judicial Arbitration and Mediation Service ("JAMS") or its successor if the AAA cannot conduct such arbitration. Arbitration may be filed prior to a face-to-face meeting and/or mediation, with such face-to-face meeting and/or mediation to follow as quickly thereafter as possible. Arbitration and

mediation/meeting may proceed concurrently. The arbitrator must be a lawyer substantially experienced in franchising. Judgment on any arbitration award will be final and binding, and may be entered in any court having jurisdiction, subject to the opportunity for appeal to a three-arbitrator appeal panel as contemplated below. The arbitrator's award will be in writing. On request by either party, the arbitrator will provide to all disputants a reasoned opinion with findings of fact and conclusions of law.

4) Fourth, a final award by an arbitrator (there will be no appeal of interim awards or other interim relief), may be appealed within 30 days of such final award. Appeals will be conducted before a 3-arbitrator panel appointed by the same organization as conducted the arbitration, each member of which must be a lawyer substantially experienced in franchising. The arbitration panel will not conduct any trial *de novo* or other fact-finding function. Such panel's decision will be in writing, may be entered in any court having jurisdiction and will be binding, final, and non-appealable. On request by either party, the arbitration panel will provide to all disputants a reasoned opinion with findings of fact and conclusions of law.

5) If required by applicable law for any arbitration provision (including the appeal process) to be enforceable (for example, with respect to preservation of constitutionally or statutorily provided rights), the arbitrator or a court may, as soon as possible, appropriately allocate between Franchisee and Franchisor the fees of the arbitrator(s) and/or his/her related organization, or require Franchisor to advance a portion of such fees subject to possible reimbursement, or otherwise address such issues so that such fees to be paid by Franchisee will not exceed those which Franchisee would incur in litigation, and the arbitrator or court may adjust such allocations, etc. appropriately during the arbitration process to achieve such end. In addition, Franchisee or Franchisor may deposit all fees required by any arbitration organization, subject to later allocation between Franchisee and Franchisor as provided above. The party initiating a claim or counterclaim in any arbitration proceedings shall pay all filing fees related thereto, but shall be entitled to reimbursement of fifty percent (50%) thereof prior to the date of the arbitration hearing.

6) If the organizations specified by this Agreement to conduct any mediation and/or arbitration are unable or unwilling to conduct such proceeding(s), and the parties to the dispute cannot agree on an appropriate substitute organization or person to conduct such proceeding(s), then a court of competent jurisdiction shall designate an appropriate organization or person to conduct such proceeding(s).

B. Location: Any mediation/arbitration (and any arbitration appeal) will be conducted exclusively at a neutral location in the county in which Franchisor's Then-Current headquarters is located, which may change from time to time, and will be attended by Franchisee and Franchisor, and/or designees authorized to make binding commitments on each of Franchisor's and Franchisee's respective behalves. Franchisee and Franchisor have selected that location based on practical business realities, such as (1) the fact that relevant business records, and many of Franchisor's personnel (who may be critical as witnesses or otherwise available to assist in resolution of the dispute), will generally be located at Franchisor's Then-Current headquarters and (2) Franchisee and Franchisor have a shared interest in avoiding inconsistent legal resolutions in multiple jurisdictions, which could adversely affect the nation-wide, consistent operation of the Closet Factory franchise system and its day-to-day affairs. However, if any court determines that this subsection is unenforceable for any reason, mediation/arbitration (and any arbitration appeal) will be conducted at a neutral location reasonably near Franchisee's Closet Factory Outlet.

Franchisee understands and agrees that one effect of the above (and other) provisions of this Agreement may be, among other things, that Franchisee's costs of mediation, arbitration, litigation or otherwise may be greater, and it may be more difficult for Franchisee to proceed, than if those proceedings took place in a location near Franchisee's residence or business or if a court was used instead of arbitration.

Franchisee and Franchisor agree that the provisions of this and all other sections will control, notwithstanding any language included in Franchisor's Franchise Disclosure Document or otherwise as a result of state requirements and suggesting that the provisions of any section might be unenforceable due to a failure to have a meeting of the minds or otherwise, and Franchisee has no expectation that the provisions of this (or any other) section will be unenforceable or that Franchisor will fail to enforce them.

C. Arbitration Authority: Arbitrators shall apply all applicable law, and a failure to apply the applicable law in accordance with Section 19.12 below shall be deemed an act in excess of authority. The arbitrator shall be appointed within 30 days of the filing of any demand for arbitration. Any arbitration hearing shall be held within 90 days of the applicable appointment. The arbitrator shall decide all questions relating in any way to the parties' agreement to arbitrate, including but not limited to arbitrability, applicability, subject matter, timeliness, scope, remedies, and any alleged fraud in the inducement or claimed unconscionability. The arbitrator can issue summary orders disposing of all or part of a claim and provide for temporary restraining orders, preliminary injunctions, injunctions, attachments, claim and delivery proceedings, temporary protective orders, receiverships and other equitable and/or interim/final relief. Each party consents to the enforcement of such orders, injunctions, etc. by any court having jurisdiction. The subpoena powers of the arbitrator with respect to witnesses to appear at the arbitration proceeding shall not be subject to any geographical limitation. No award in arbitration will have any effect of preclusion or collateral estoppel in any other adjudication or arbitration.

D. Discovery, Compulsory Counter-Claims: The disputants will have the same discovery rights as are available in civil actions under the state law selected in Section 19.12, except as modified by this Section 19.2. Discovery will relate exclusively to the relationship/agreements between Franchisee and Franchisor and not to Franchisor's relationship/agreements with other Franchisees, depositions will be limited to key persons and either party can depose a maximum of three (3) such persons, including any experts, for a maximum period of 7 hours. If any portion of this subsection is deemed to be unenforceable for any reason, it shall be modified or restricted, or severed, so as to comply with applicable law. Each disputant must submit or file any claim which would constitute a compulsory counter-claim within the same proceeding as the claim to which it relates as if the laws of the state law selected in Section 19.12 relating to such matters in litigation also governed such matters in arbitration. Subject to applicable law, any such Claim which is not submitted or filed in such proceeding will be forever barred.

E. Fees and Costs: The parties will bear their own attorneys' fees and costs.

F. Disputes Not Subject to the Arbitration Process: Notwithstanding any other provisions of this Agreement or otherwise:

Any party to this Agreement shall be entitled to seek emergency interim, injunctive or expedited relief, by court or by arbitration (including, but not limited to, a temporary restraining order and temporary injunction, all without bond), to prohibit a wrongful termination of this Agreement by the other party, unauthorized use or infringement of any of the Marks or any copyright, or for other appropriate causes, without showing or proving actual damage, until such time as a final and binding determination is made by the court or arbitrator. Franchisee and Franchisor agree that since (a) the legal status/protection of the Marks and/or any Intellectual Property licensed to Franchisee and Franchisor's other franchisees is a core element of Franchisor's System and of critical importance to all of Franchisor's franchisees and the future of Franchisor's System, and (b) an adverse decision might affect all Franchisor's franchisees, it is critical that such matters should be decided by means of a court trial and be subject to possible appellate court review. The foregoing

equitable remedies shall be in addition to, and not in lieu of, all other remedies or rights which the parties might otherwise have by virtue of any breach of this Agreement by the other party. If the provisions of this subsection are unenforceable or would result in rendering this Article 19 (or any portion thereof) unenforceable for any reason, the entire dispute shall be subject to arbitration and appeal of any arbitration decision, as provided in this Section 19.2. Any action to compel a party's compliance with this Section 19.2 must be consistent with Section 19.3.

G. Franchisee's and Franchisor's Intentions and Agreements: Franchisee and Franchisor mutually agree (and have expressly had a meeting of the minds) and intend that, notwithstanding any contrary provisions of state, provincial or other law and/or any statements in Franchisor's Franchise Disclosure Document required by a state/province as a condition to registration or for some other purpose:

1) all disputes relating to arbitrability (including whether or not any particular claim, issue or otherwise is to be submitted to arbitration), arbitration procedures and/or enforcement of any of the dispute resolution-related or other provisions of this Agreement will be exclusively decided by the arbitrator, including any assertion that this Agreement as a whole, or the arbitration provisions, or any other provisions, of this or any other agreement, are unreasonable, oppressive, unlawful, invalid, void or voidable, procured by fraud or uneven bargaining power, unconscionable, part of a contract of adhesion, were not subject to negotiation or are not enforceable for any reason or similar claims, and whether such assertions relate to this or any other agreement as a whole, or merely any arbitration or any other portions, and will be governed only by the Federal Arbitration Act and the federal common law of arbitration and exclusive of state statutes and/or common law.

2) all provisions of this Agreement shall be fully enforced, including but not limited to those provisions relating to arbitration, venue, and choice of law, Franchisee and Franchisor having had a meeting of the minds regarding such full enforcement (and have no expectations to the contrary) in signing this Agreement; and

(3) Franchisee and Franchisor intend to rely on federal preemption under the Federal Arbitration Act (9 U.S.C. § 1 et seq. and each knowingly waive all rights to a court or jury trial and select arbitration as the sole means to resolve disputes (except as expressly provided otherwise in this Agreement), understanding that arbitration may be less formal than a court or jury trial, may use different rules of procedure and evidence and that appeal is generally less available, and that the fees and costs associated with a face-to-face meeting, mediation and/or arbitration may be greater than in civil litigation, but still strongly preferring a face-to-face meeting, mediation and/or arbitration as provided in this Agreement believing that arbitration has overriding advantages from a business standpoint, such as an arbitrator being particularly familiar with franchising, as well as offering the possibility of lower costs and more rapid disposition of disputes.

19.3 Exclusive Jurisdiction and Venue. Without in any way limiting or otherwise affecting Franchisee's and Franchisor's obligations under Section 19.2, above, Franchisee and Franchisor agree that any court proceedings (including any action to compel a party's compliance with this Article 19) will be exclusively held in the United States District Court encompassing Franchisor's Then-Current headquarters (the "Proper Federal Court"), which may change from time-to-time, subject to the following exceptions:

A. If a basis for federal jurisdiction does not exist, then any such proceeding will be brought exclusively before a court in the most immediate state judicial district encompassing Franchisor's Then-Current headquarters and having subject matter jurisdiction (the "Proper State Court");

B. Proceedings to remove or transfer a matter to the Proper Federal Court and/or to compel arbitration as contemplated by this Agreement may be brought in the court where the applicable action is pending and/or the Proper State or Federal Court; and

C. Any action primarily with respect to any real and/or personal property (including any action in unlawful detainer, ejectment or otherwise) may be brought in any court of competent jurisdiction and/or the Proper State or Federal Court.

Franchisee and Franchisor each consent to jurisdiction of the courts as specified above.

These and similar provisions are agreed on due to practical business considerations, such as (1) the fact that relevant business records and personnel key to resolution of the dispute, will generally be located at Franchisor's Then-Current headquarters and (2) Franchisee and Franchisor have a shared interest in avoiding inconsistent legal resolutions in multiple jurisdictions, which could adversely affect the Closet Factory franchise system and its day-to-day management. Franchisee understands and agrees that the effect of the above (and other) provisions of this Agreement may be, among other things, that Franchisee's costs of litigation or otherwise in a location away from Franchisee's residence or business may be greater, and it may be more difficult for Franchisee to proceed, than if those proceedings took place in a location nearer Franchisee's residence or business. However, if a court or arbitrator determines that these provisions are unenforceable for any reason, they shall be severed and the venue for litigation will be as determined under applicable law.

19.4 Terms Applicable to All Proceedings, Waiver of Trial by Jury, Class Actions. With respect to any litigation or other proceeding of any kind (and subject to the provisions of this Agreement regarding arbitration, etc.), Franchisee and Franchisor mutually waive all rights to trial by jury, provided that if the jury trial waiver provisions of this Agreement are unenforceable for any reason, Franchisee and Franchisor agree that the controversy or dispute shall be referred to, and heard and decided by, a referee to be appointed by the appropriate court as determined under Section 19.3. Such referee shall (a) if at all possible, be a lawyer experienced in franchising, (b) hear and determine all of the issues in such action or proceeding, whether of fact or of law, (subject to the provisions of this Agreement) and report a statement of decision, and (c) shall ascertain any fact necessary to enable the court to determine such action or proceeding.

Franchisee and Franchisor will pursue any proceeding (whether mediation, arbitration, trial to a court or jury, appeal or otherwise) on an individual basis only, and not on a class-wide or multiple plaintiff basis (whether as a result of attempted consolidation, joinder of otherwise); provided that if this provision is not enforceable for any reason, then Franchisee and Franchisor agree that with respect to any multiple plaintiff or class action, a court will supervise the procedural aspects directly related to the multiple plaintiff/class nature of the proceeding (e.g. certification of the class, appropriateness of class representation, approval of attorneys' fees incurred on behalf of the class, approval of any settlement, etc.) and the arbitrator will decide all substantive matters related to the actual claims, including liability and damages. Franchisee and Franchisor agree that the limitations of this subsection are prudent from a business standpoint because (1) the mediation and arbitration procedures contemplated by this Agreement function most effectively on an individual case basis, (2) there are significant factors present in each individual Franchisee's situation which should be respected, and (3) class-wide or multiple plaintiff disputes do not foster quick, amicable and economic dispute resolutions.

19.5 Waiver of Punitive Damages. To the fullest extent permitted by law, Franchisee and Franchisor (and Franchisee's and Franchisor's affiliates) mutually and knowingly waive all rights to or claim for punitive, exemplary, multiple or similar damages and agree that, in the event of any dispute, all recovery shall be limited to actual damages sustained by the injured party; provided that no such waiver or limitation shall apply to amounts owed under any indemnification obligation; and provided further that, to the extent required by applicable law, if Franchisee or Franchisor has any unwaivable rights to punitive, exemplary, multiple or similar damages under any statute or regulation, such rights will remain in effect.

If Franchisee and Franchisor were not able to limit Franchisee's and Franchisor's potential exposures to punitive, exemplary, multiple or similar damages, the business relationship contemplated by this Agreement might not make business sense for either Franchisee or Franchisor (since such damages might substantially exceed the potential economic return which either Franchisee or Franchisor might receive from the relationship) and the possibility of such damages, or damages difficult to fix with any specificity, would make business planning and dealings between Franchisee and Franchisor particularly difficult, and Franchisee and Franchisor would not have entered into this Agreement. In any event, any constitutional and/or statutory limitations on punitive, exemplary, multiple or similar damages will apply, and any award by an arbitrator or court in excess of such limitations will be in excess of legal authority and void.

19.6 Survival of Obligations. Articles 19 and 21 will continue in full force and effect after and notwithstanding the expiration, Termination, rescission, or cancellation of this Agreement for any reason, will survive and will govern any Claim for rescission or otherwise, as well as any Claim against, or with respect to, Franchisee, Franchisor, any Marketing Fund and/or any of the Franchisor-Related Persons/Entities and the non-solicitation, confidentiality, protection of the Marks, indemnity/hold harmless obligations, ongoing audit rights and all other Post-Termination Provisions provided in this Agreement shall also survive. Notwithstanding any bankruptcy or other proceeding, Franchisee and Franchisor wish to have the dispute avoidance and resolution provisions of this Agreement strictly enforced according to their terms, to the maximum extent allowable by law.

19.7 Attorneys' Costs and Fees. The parties will each bear their own costs of enforcement and/or defense (including but not limited to attorneys' costs and fees), including those matters resolved pursuant to a settlement agreement between the parties.

19.8 Binding Effect, Modification. This Agreement is binding on the parties and their respective executors, administrators, heirs, assigns, and successors in interest, and will not be modified or supplemented except by means of a written agreement signed by both Franchisee and Franchisor's President or one of Franchisor's Vice Presidents. However, Franchisee and Franchisor understand and agree that changes to the Manuals made in accordance with this Agreement are binding and do not require any acceptance by Franchisee, written or otherwise, to be effective and enforceable. No other officer, field representative, salesperson or other person has the right or authority to modify this Agreement, or to make any representations or agreements on Franchisor's behalf, and any such modifications, representations and/or agreements will not be binding. Notwithstanding the fact that a party to this Agreement is or may become a party to a court action or special proceeding with a third party or otherwise, and whether or not such pending court action or special proceeding (1) may include common or other issues of law, fact or otherwise arises out of the same transaction or occurrence, or series of related transactions or occurrences, as any arbitration between or involving the parties, (2) involves a possibility of conflicting rulings on common issues of law, fact or otherwise, and/or (3) such pending court action or special proceeding may involve a third party who cannot be compelled to arbitrate, the agreement of the parties shall be enforced according to its terms and any party to this Agreement may bring an action to compel a face-to-face meeting, mediation and/or arbitration,

Franchisee and Franchisor strongly preferring arbitration to court actions and wishing to have a single entity (the arbitrator) determine all issues of fact and law between or involving Franchisor, except as expressly provided otherwise in this Agreement.

19.9 Meaning of “Sole Discretion;” Express Agreement. When Franchisor uses the phrases “sole and absolute discretion,” “sole discretion” or similar words, and whenever Franchisor exercises a right, prescribes an act or thing, or otherwise makes a choice or uses discretion, Franchisee and Franchisor agree that Franchisor has the wholly unrestricted right to make decisions and/or take (or refrain from taking) actions, except that Franchisor will not act arbitrarily. Franchisor will not be required to consider Franchisee’s individual interests or the interests of any other particular Franchisee(s), even if a particular decision/action may have negative consequences for Franchisee, a particular franchisee or group of franchisees.

Franchisor has made the foregoing agreement since Franchisee and Franchisor concur that the ultimate decision-making responsibility with respect to the Closet Factory System (among other things) must be, as a practical business matter, vested solely in Franchisor, since Franchisee, Franchisor and all other franchisees have a collective interest in working within a franchise system with the unrestricted flexibility to quickly adjust to changing business conditions, including competitive challenges, new regulatory developments and emerging business opportunities. Franchisee understands and agrees that Franchisor having such rights is critical to Franchisor’s role as Franchisor and to Franchisee’s and Franchisor’ goals for continuing improvement of the Closet Factory franchise system.

Franchisee and Franchisor also agree that this Agreement will be enforced according to its express provisions. Neither Franchisee nor Franchisor has any expectation, nor is it Franchisee’s or Franchisor’s intention or desire, that the rights and obligations set out in this Agreement will be defined or determined to be other than as expressly written, or that additional or different obligations be imposed on Franchisee or Franchisor by any court, arbitrator or otherwise which Franchisee or Franchisor have not expressly agreed to in writing. It would be contrary to Franchisee’s and Franchisor’s mutual intentions and expectations that any court or arbitrator or use any doctrine and/or rule of interpretation to impose additional obligations on Franchisee or Franchisor

19.10 Construction. Section and Article headings are for convenience only and do not define, limit, or construe such provisions. References to a “controlling interest” are to any interest which enables the holder(s) of such interest, as a practical matter, to determine the outcome of a decision making process for the applicable entity. All terms used in any one number or gender shall extend to mean and include any other number and gender as the facts, context, or sense of this Agreement or any Article or Section in this Agreement may require. As used in this Agreement, the words “include,” “includes” or “including” are used in a non-exclusive sense. Unless otherwise expressly provided in this Agreement to the contrary, any consent, approval, acceptance or authorization of Franchisor or Franchisee that may be required under this Agreement shall be in writing and shall not be unreasonably withheld, conditioned or delayed by the Party whose consent, approval, acceptance or authorization has been requested. To protect the Closet Factory System, the Marks, and the goodwill associated with the Marks, on any occasion where Franchisor is required or permitted to make any judgment, determination or use its discretion, including any decision as to whether any condition or circumstance meets Franchisor’s standards or satisfaction, Franchisor may do so in its sole subjective judgment and discretion. Neither this Agreement nor any uncertainty or ambiguity in this Agreement shall be construed or resolved against the drafter of this Agreement, whether under any rule of construction or otherwise. On the contrary, Franchisee and Franchisor have carefully reviewed and thought about each provision of this Agreement, as well as a number of its terms and provisions having been already disclosed to Franchisee in the Franchise Disclosure Document Franchisee has received. Therefore, Franchisee and

Franchisor agree that provisions shall be construed simply according to their fair meaning, without presumptions or inferences concerning terms or interpretation or otherwise and not strictly against Franchisee or Franchisor.

19.11 Waivers; Cumulative Rights. No waiver by either party of any breach, default or unfulfilled condition under this or any other agreement between the parties will be deemed a waiver of any subsequent or other breach, default or unfulfilled condition. No waiver will be effective unless in writing and signed by an authorized representative of the signing party. The rights and remedies provided in this Agreement are cumulative. Except as expressly provided in this Agreement, no party will be prohibited from exercising any rights or remedies provided under this Agreement or permitted under law or equity.

19.12 Choice of Laws. Franchisee and Franchisor agree on the practical business importance of certainty as to the law applicable to Franchisee and Franchisor relationship and its possible effect on the development and competitive position of the Closet Factory System, understanding that the lack of such certainty could affect Franchisee's and Franchisor's ongoing ability to effectively conduct business. Therefore, Franchisee and Franchisor also agree that, except with respect to the applicability of the Federal Arbitration Act, 9 U.S.C. § 1 et seq. and the effect of federal pre-emption of state law by such Act, and except to the extent governed by the United States Trademark Act and other federal laws, this Agreement and all other matters, including, but not limited to respective rights and obligations, concerning Franchisee and Franchisor, will be exclusively governed by, and construed and enforced in accordance with, the laws of the state where Franchisee's Closet Factory Outlet is, or will be, located.

Franchisee and Franchisor agree that this provision will be enforced without regard to the laws of such jurisdiction relating to conflicts of laws or choice of law, and that the provisions of any law of that jurisdiction regarding franchises or business opportunities (including, without limitation, registration, disclosure, and/or relationship laws) will not apply unless such jurisdiction's jurisdictional, definitional and other requirements are met independently of, and without reference to, this Section 19.12.

19.13 Application of Agreement to Parties and Others; Joint and Several Liability. The rights and obligations of this Agreement run directly between Franchisee and Franchisor and are not intended to create any third-party beneficiary or similar rights or obligations unless specifically expressed in this Agreement; except that the protections which apply to Franchisor relating to indemnification and/or releases will also benefit any past, current and/or future Franchisor-Related Persons/Entities, the Marketing Fund and the FAC and that the protections which apply to Franchisee will also apply to Franchisee's Affiliates, unless Franchisee's Affiliate is under a separate Franchise Agreement with Franchisor, in which case their protections under that Franchise Agreement will apply to them. Franchisor has the unrestricted right to elect to not enforce (or to selectively enforce) any provision of this Agreement or any other agreement, standard or policy, whether with respect to Franchisee and/or any other franchisee or other person, or any Affiliate of Franchisee or Franchisor, without liability. If two or more persons are at any time the Franchisee or the Franchisee owners, all of their obligations and liabilities under this or any other agreement with Franchisor and/or any Franchisor-Related Persons/Entities and/or any marketing fund or franchisee advisory council will be joint and several. The provisions of Articles 19 and 21 will apply to any dispute between Franchisee (and/or any Affiliate of Franchisee, and/or person/entity making a claim on Franchisee's behalf) and any past, current and/or future Franchisor-Related Persons/Entities, any marketing fund and/or franchisee advisory council.

19.14 Force Majeure. Neither party will be in default in the performance of its obligations under this Agreement if such performance is prevented or delayed due to Force Majeure. In the event of the occurrence of an event constituting Force Majeure, the party claiming the extension by Force Majeure shall

notify the other party in writing within 10 days after commencement of the Force Majeure of the specific nature and extent of the Force Majeure, and how it has impacted that party's performance under this Agreement. The particular time period to which the event of Force Majeure applies shall be extended by an amount of time equal to the time period during which the Force Majeure shall have existed. The party claiming the extension by Force Majeure shall continue to provide the other party with updates and all information as may be requested by the other party, including that party's progress and diligence in responding to and overcoming the Force Majeure. An event of Force Majeure will not affect or change Franchisee's obligation to pay Royalty, Marketing Fund Fees or any other fees owed to Franchisor when due during the event of Force Majeure.

I have read Sec. 19.1-19.14 in detail, understand them, and agree with them. Franchisee's Initials: _____ / _____
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20. NOTICES AND PAYMENTS.

All written notices and reports to be delivered by the provisions of this Agreement or of the Manuals will be deemed so delivered when delivered by hand, immediately on transmission by facsimile transmission or other electronic system, including email or any similar means, one business day after being placed in the hands of a commercial courier service for overnight delivery, or 3 business days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to Franchisor at Closet Factory, 12800 South Broadway, Los Angeles, California 90061 (or Franchisor's Then-Current headquarters), to the attention of the President, and to Franchisee, at Franchisee's Closet Factory Outlet. Until Franchisee's Closet Factory Outlet has opened for business, Franchisor can send Franchisee notices at any address appearing in Franchisee's application for a franchise or in Franchisor's records. Any required payment or report not actually received by Franchisor during regular business hours on the date due will be deemed delinquent. Notice to any one Franchisee, or owner of the Franchisee, will be deemed effective as to all Franchisees under this Agreement and all owners of the Franchisee(s). Any party may change its address for receipt of notices by providing prior written notice of such change to the other party.

21. ACKNOWLEDGMENTS AND REPRESENTATIONS, ENTIRE AGREEMENT, , ETC.

A. Franchisee and Franchisor agree that Franchisee's and Franchisor's relationship is an ordinary commercial relationship between independent business people with arm's length dealings.

B. FRANCHISEE AND FRANCHISOR EXPRESSLY ACKNOWLEDGE AND AGREE THAT THE PROVISIONS OF ARTICLE 19 (WHETHER RELATING TO MANDATORY BINDING ARBITRATION, MEDIATION, WAIVER OF JURY TRIAL, VENUE, LIMITATIONS ON DAMAGES, PROHIBITION AGAINST MULTIPLE PLAINTIFF-CLASS ACTIONS, SHORTENED STATUTES OF LIMITATION, AND/OR OTHERWISE) MAY REQUIRE FRANCHISEE TO TRAVEL TO A DISTANT LOCATION TO RESOLVE A DISPUTE, EXPEND ADDITIONAL FUNDS, AND/OR RAISE CHALLENGES FOR FRANCHISEE AND/OR FRANCHISOR IN PROSECUTION OF CLAIMS/ACTIONS. FRANCHISEE AND FRANCHISOR VIEW THESE PROVISIONS IN THE CONTEXT OF A DIVERSE FRANCHISE SYSTEM WITH FRANCHISEES HAVING EXTENSIVE OR LIMITED FINANCIAL RESOURCES, SOPHISTICATED AND UNSOPHISTICATED PARTICIPANTS, AND THAT REQUIRES UNIFORMITY AND PREDICTABILITY TO EFFECTIVELY OPERATE. AS SUCH, FRANCHISEE AND FRANCHISOR KNOWINGLY ACCEPT SUCH PROVISIONS AND LIMITATIONS AS JUSTIFIED BY BUSINESS NECESSITIES AND REPRESENTATIVE OF A REASONABLE BALANCING OF FRANCHISEE'S AND FRANCHISOR'S INTERESTS, AND THOSE OF THE CLOSET FACTORY SYSTEM AS A WHOLE, AND NOT AS UNFAIR OR BURDENSOME.

C. Franchisee and Franchisor agree that this Agreement contains the final, complete and exclusive expression of the terms of Franchisee and Franchisor agreement [along with concurrently signed writings, such as, but not limited to personal guarantees, Statement of Prospective Franchisee, addenda, exhibits, releases and any other related documents (collectively, the "Related Documents")] and supersedes all other agreements and/or representations of any kind or nature. Nothing in this Franchise Agreement or any related agreement is intended to disclaim the representations Franchisor made to Franchisee in Franchisor's Franchise Disclosure Document.

D. Franchisee and Franchisor each (respectively) represent, warrant and agree that no contingency, prior requirement, or otherwise (including but not limited to obtaining financing) exists with respect to Franchisee or Franchisor fully performing any or all of Franchisee or Franchisor obligations under this Agreement.

I have read Sec. 21 A. - D. in detail, understand them, and agree with them.

Franchisee's Initials: _____ / _____

E. FRANCHISEE ACKNOWLEDGES AND AGREES THAT FRANCHISEE (AND EACH OF FRANCHISEE'S OWNERS) HAS RECEIVED A COPY OF FRANCHISOR'S FRANCHISE DISCLOSURE DOCUMENT WITH ALL EXHIBITS AT LEAST 14 CALENDAR DAYS PRIOR TO SIGNING ANY BINDING DOCUMENTS OR PAYING ANY SUMS.

I have read Sec. 21 E. in detail, understand it, and agree with it.

Franchisee's Initials: _____ / _____

F. Franchisee understands, acknowledges and agrees that (1) Franchisor may have offered franchises in the past, may currently be offering franchises and/or may offer franchises in the future, on economic and/or other terms, conditions and provisions which may significantly differ from those offered by this Agreement and any related documents and (2) Franchisor has the unrestricted right, from time to time, to deal with Franchisor's franchisees on differing economic and/or other terms (including making special arrangements for payments of amounts due, waiving defaults and/or otherwise) to suit individual business circumstances, without being required to offer similar terms to other Franchisees, such flexibility being a practical necessity to respond to distinct business situations.

I have read Sec. 21 F. in detail, understand it, and agree with it.

Franchisee's Initials: _____ / _____

G. Entity Information. Franchisee represents and warrants that the information set forth in Exhibit 21 which is attached to this Agreement and by this reference made a part of this Agreement, is accurate and complete in all material respects. Franchisee shall notify Franchisor in writing within 10 days of any change in the information set forth in Exhibit 21, and shall submit to Franchisor a revised Exhibit 21, certified by Franchisee as true, correct and complete and upon acceptance thereof by Franchisor shall be attached to

this Agreement as Exhibit 21. Franchisee promptly shall provide such additional information as Franchisor may from time to time request concerning all persons who may have any direct or indirect financial interest in Franchisee. Franchisee shall conduct no business other than the business contemplated under this Agreement and under any currently effective Agreement between Franchisor and Franchisee. The entity documents of Franchisee shall recite that the issuance and transfer of any interest therein is subject to the restrictions set forth in this Agreement.

H. Exclusive Remedy. In no event shall Franchisee make any claim for money damages based on any claim or assertion that Franchisor has unreasonably withheld or delayed any consent or approval under this Agreement. Franchisee waives any such claim for damages. Franchisee may not claim any such damages by way of setoff, counterclaim or defense. Franchisee's sole remedy for the claim will be an action or proceeding to enforce the provisions of this Agreement, for specific performance or for declaratory judgment.

I. Counterparts and Electronic Transmission; Electronic Signatures. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Copies of this Agreement with signatures that have been transmitted by email or by facsimile shall constitute and be deemed original copies of this Agreement for all purposes, provided that the copies are fully executed, dated and identical in form to the original hard copy version of this Agreement. In addition, this Agreement and all Exhibits to this Agreement may be signed electronically by the parties and electronic signatures appearing on this Agreement and the Exhibits shall be deemed to be the same as handwritten signatures for the purposes of the validity, enforceability and admissibility of this Agreement and the Exhibits.

J. Initialing. Franchisee and Franchisor agree that all provisions of this Agreement will be fully enforceable as a result of Franchisor and Franchisee signing of this Agreement, and any failure by Franchisee to initial any provision will not result in such provision being unenforceable; a provision will be unenforceable only if (a) it has been crossed out and such crossing out has been initialed by both Franchisee and Franchisor or (b) there has been an express written agreement between Franchisee and Franchisor that such provision is of no force or effect.

22. DEFINITIONS.

The following definitions apply to terms used in this Agreement:

"Affiliate" - Any person or entity which controls, is controlled by or is under common control with another person or entity; in addition, as to the Franchisee, any owner of any interest in the Franchisee or the Franchise, any employee or agent of the Franchisee, and/or any independent contractor performing functions for, or on behalf of, the Franchisee, and any entity controlled by any of the foregoing.

"Agreement" - This Franchise Agreement.

"Attorneys' Fees" - Includes, without limitation, legal fees, whether incurred in preparation of the filing of any written demand or claim, action, hearing, arbitration, or other proceeding to enforce the obligations of this Agreement, or during any such proceeding, plus all costs incurred in connection therewith.

"Authorized Suppliers" - Persons or business entities that are approved by Franchisor to provide Franchisee with products and/or services that meet the standards and specifications as set forth by Franchisor.

“Brand” - The Closet Factory® brand, as applied to various goods and/or services as authorized by Franchisor from time to time.

“Business Day” - Each Monday through Friday, excluding the following holidays: New Year’s Day, Memorial Day, the 4th of July, Labor Day, Thanksgiving Day, and Christmas Day.

“Business Entity” - Includes a corporation, partnership, joint venture, limited liability company, limited partnership, or other form of business recognized in any jurisdiction. If Franchisee is a Business Entity, then Franchisor can require each of Franchisee’s owners and their spouses or domestic partners in Franchisor’s Business Judgment to guaranty Franchisee’s performance. Franchisor current form of Owner’s Guaranty is attached as Exhibit 14.4 of this Franchise Agreement.

“Business Judgment” - Means that Franchisor is allowed to exercise Franchisor’s judgment, however, Franchisor considers appropriate in Franchisor’s sole and absolute discretion, except that Franchisor will not do so arbitrarily. Franchisee and Franchisor agree that Franchisor has the unrestricted right to make decisions and/or take (or refrain from taking) actions, (except that Franchisor will not do so arbitrarily) and Franchisor has this right even if a particular decision/action may have negative consequences for Franchisee, a particular franchisee or group of franchisees. Franchisee understands and agrees that the exercise of Business Judgment is critical to Franchisor’s role as Franchisor and to Franchisor’s goals for its continuing improvement. This is a defined term for the purposes of this Agreement and is not intended to incorporate principles related to the application of the business judgment rule in a corporate law context.

“Closet Factory Marks” or **“Marks”** - The trademarks, service marks and other commercial symbols now and/or in the future owned by (or licensed to) Franchisor to identify the services and/or products offered by Closet Factory Outlets, including (but not limited to) “The Closet Factory®”, related logos, slogans, “ClosetWare”, the Trade Dress and other logos and identifiers designated by Franchisor from time to time.

“Closet Factory Outlet” - The Traditional Closet Factory Outlet Franchisee is authorized to operate by this Agreement.

“Closet Factory System” or **“System”** - The distinctive format and method of doing business now or in the future developed, used and/or modified by Franchisor in Franchisor’s sole and absolute discretion for the operation of a retail sales outlet for the marketing, design, manufacture, installation, service and repair of custom closets and storage systems, including (but not limited to) (a) distinguishing characteristics related to the image, design, appearance, layout and color scheme of a Closet Factory Outlet, (b) design, style, color and other distinguishing characteristics of fixtures, showcases, signs and furnishings, (c) layout, design and selection of equipment, (d) specifications used in preparing products and services for sale, (e) methods used for selecting, purchasing, marketing, displaying and selling products and services, (f) operating, marketing and other systems, proprietary software, procedures and standards and (g) the standards of quality and service used in the operation of a Closet Factory Outlet.

“Closet Factory System Standards” - Standards prescribed by Franchisor in Franchisor’s Business Judgment from time to time, in the Manuals or elsewhere, for the operation, marketing and otherwise of Closet Factory Outlets.

“Customary Representations, Warranties and Agreements” - Includes commitments generally made by a transferor in connection with a transfer of a business and/or related assets, including but not limited to: representations as to ownership, condition and title to stock and/or assets, liens and encumbrances relating to

the stock and/or assets, validity of contracts, and liabilities, contingent or otherwise, relating to the business/assets/entity to be acquired; full indemnification obligations and non-competition covenants by the transferor and each Affiliate, substantially similar to those required in Sections 7.4 and 8.2; the delivery at closing of instruments transferring good and merchantable title to the assets purchased, free and clear of all liens and encumbrances (other than liens and security interests acceptable to Franchisor in Franchisor's Business Judgment), and demonstrating that all sales, transfer and/or similar taxes are to be paid by the transferor through escrow if Franchisor so requires; the transfer at closing of all licenses and permits which may be assigned or transferred.

"Designated Equipment" - Equipment that meets Franchisor's requirements and which Franchisee must obtain and use in the operation of Franchisee's Closet Factory Outlet.

"Force Majeure" – Any event that: (i) was reasonably unforeseeable as of the date of this Agreement; (ii) is beyond the reasonable control, directly or indirectly, of a Party; (iii) the effects of which could not reasonably be prevented or avoided by that Party with the exercise of commercially reasonable efforts and due diligence; (iv) does not result from the Party's fault or negligence or the fault or negligence of its agents, employees or subcontractors; and (v) causes that Party to be delayed, in whole or in part, or unable to partially or wholly perform its obligations under this Agreement and subject to the satisfaction of the foregoing criteria. Force Majeure includes: (a) acts of God (such as tornadoes, earthquakes, hurricanes, floods, fire or other natural catastrophe); (b) strikes, lockouts or other industrial disturbances; (c) war, terrorist acts, riot, or other civil disturbance; (d) unilateral governmental action impacting businesses generally; and (e) epidemics, transportation shortages, inadequate supply of labor, material or energy, or a party foregoing the right to acquire or use any of the foregoing in order to accommodate or comply with the orders, requests, regulations, recommendations or instructions of any federal, state or municipal government or any department or agency. Neither an act or failure to act by a Governmental Authority, nor the performance, non-performance or exercise of rights under any agreement with Franchisee by any lender, landlord, contractor, or other person, or Franchisee's financial inability to perform or Franchisee's insolvency, shall be an event of Force Majeure under this Agreement, except to the extent that such act, failure to act, performance, non-performance or exercise of rights results from an act which is otherwise an event of Force Majeure. Neither Party will be in default in the performance of its obligations under this Agreement if such performance is prevented or delayed due to Force Majeure.

"Franchise" - The right to operate a single Traditional Closet Factory Outlet at the Premises under the terms of this Agreement.

"Franchise Advisory Committee" or "FAC" - An advisory group selected (or which may be selected) in accordance with this Agreement, which will provide Input as provided in this Agreement and as Franchisor may request from time to time. There may be more than one such advisory group.

"Franchise Marketing Group" or "FMG" - An association selected (or which may be selected) in accordance with this Agreement, to conduct marketing-related activities on a cooperative basis as Franchisor may direct from time to time. There may be more than one such marketing group.

"Franchised Business" - The business operations conducted by, at or in connection with Franchisee's Closet Factory Outlet.

"Franchisee" - The party (ies) signing this Agreement as Franchisee. (If there is more than one Franchisee, each is jointly and severally obligated under this Agreement and all other agreements with Franchisor, the

Franchisor-Related Persons/Entities and/or the Marketing Fund and/or any FMG). The term “Franchisee” is applicable to one or more persons or a Business Entity, as the case may be.

“Franchisor” - The Closet Factory Franchise Corporation, a California corporation.

“Franchisor-Related Persons/Entities” - The Closet Factory Franchise Corporation and each and all of the following, whether past, current and/or future: company(ies) and/or person(s) acting through, in concert with Franchisor and/or any of the foregoing, and/or as Affiliates of Franchisor and/or of any of the foregoing; the Affiliates, partners, shareholders, officers, directors, agents, attorneys, accountants, and/or employees of Franchisor and/or any of the foregoing; and the predecessors, successors and/or assigns of Franchisor and/or any of the foregoing.

“General Release” - A general release, in the Then-Current form prescribed by Franchisor at the time such release is to be delivered, of any and all claims, liabilities and/or obligations, of any nature whatsoever, including those existing as of, and/or arising before, the date of any such release, however arising, known or unknown, whether against Franchisor and/or any or all of the Franchisor-Related Persons/Entities, the Marketing Fund and/or any FMG or FAC, and whether by Franchisee, any owner of Franchisee (if Franchisee is or becomes a Business Entity) and/or any Affiliate of any of the foregoing. A copy of Franchisor’s general releasing language as currently used by Franchisor (which is subject to change) is attached as Exhibit 9.1 and is approved by Franchisee.

“Good Standing” - Franchisee is in “Good Standing” if Franchisee (and each of Franchisee’s owners and Affiliates) are not in default of any obligation to Franchisor and/or any of the Franchisor-Related Persons/Entities and/or the Marketing Fund and/or any FMG, whether arising under this Agreement or any other agreement between Franchisee (and each of Franchisee’s owners and Affiliates) and Franchisor (and/or any of the Franchisor-Related Persons/Entities and/or the Marketing Fund and/or any FMG), the Manuals or other Closet Factory System requirements (collectively, the “Obligations”); provided that Franchisee is not in Good Standing if Franchisee has been in default of any Obligations and such defaults are incurable by nature and/or part of a series of repeated defaults as defined in this Agreement.

“Governmental Authority” means all Federal, state, county, municipal and local governmental and quasi-governmental agencies, commissions and authorities.

“Gross Receipts” - Gross Receipts includes all revenues which are received by Franchisee or any Affiliate (on Franchisee’s behalf or benefit) less sales tax collected, customer refunds, adjustments and credits:

- (1) by or with respect to Franchisee’s Closet Factory Outlet;
- (2) which relate to the type of products, services or any other items which are or could be provided, sold, rented or otherwise distributed at, through or in association with a Closet Factory Outlet;
- (3) in association with any use of the Marks, the Closet Factory System, or any related techniques, systems, procedures, or know-how; and/or
- (4) with respect to the operation of any Similar Business (but Franchisor’s receipt, acceptance and/or otherwise of any royalties with respect to any Similar Business will not constitute approval of Franchisee, or anyone else’s, involvement with any Similar Business.)

There will be no deduction for credit card or other charges.

“Holdover Status” - The continued operation of a Traditional Closet Factory Outlet after the expiration or termination of this Agreement.

“Immediate Family” - With respect to any person, “Immediate Family” includes that person’s spouse and/or domestic partner and each of their respective parents, guardians, grandparents, siblings, children, grandchildren, aunts, uncles, cousins, nieces and/or nephews.

“Input” - Advice and suggestions regarding specified matters. When Franchisor receives Input from any FAC or any other franchisee group Franchisor will retain the ultimate decision-making authority and responsibility for all matters for which Input is sought. FAC (or any other franchisee group) Input, votes or other collective actions will not be binding on Franchisor unless Franchisor has otherwise agreed in writing. FAC (or any other franchisee group) approval or consent will not be required as a pre-condition to any decision and/or action Franchisor may take.

“Intellectual Property” - Includes, regardless of the form or medium involved:

- 1) all Closet Factory software, including the ClosetWare™ program and data and information processed or stored thereby;
- 2) the Manuals and all other directives, policies or information Franchisor issues from time to time;
- 3) all customer relationships and information;
- 4) the Marks;
- 5) the Trade Dress;
- 6) all Confidential Information and Franchisor’s trade secrets; and
- 7) all other proprietary, copyrightable and/or Trade Secret information and materials developed, acquired, licensed or used by Franchisor in Franchisor’s operation of the Closet Factory System.

“Manuals” - Specifications, standards, policies and procedures prescribed by Franchisor and published to Franchisee in any media (including written, video, audio, or other electronic form) and which are to be followed in the operation of Franchisee’s Closet Factory Outlet as they may be changed or eliminated by Franchisor in Franchisor’s Business Judgment.

“Marketing Fund” - The fund that Franchisor may elect to establish to promote the Marks and all Closet Factory Outlets.

“Post Termination Provisions” - Those promises contained in this Agreement that survive its expiration, Transfer, Repurchase, or Termination for any reason, including, without limitation, the confidentiality, non-competition, indemnification, and dispute resolution and other provisions contained in Articles 19, 20 and 21, and all provisions related to (a) de-identification and/or return or destruction of various items and (b) audits.

“Premises” - The facility in which Franchisee will operate a single Traditional Closet Factory Outlet.

“Products” and “Services” - Goods, products and services designated by Franchisor from time to time for use, sale or otherwise to be provided (and/or used) at and/or from Franchisee’s Traditional Closet Factory Outlet and/or in association with the Marks.

“Repurchase” - Repurchase includes (but is not limited to) any acquisition by Franchisor (and/or any of the Franchisor-Related Persons/Entities) of Franchisee's rights in and/or to any of the following:

- 1) this Agreement;
- 2) the Franchise;
- 3) the ownership of the Franchisee;
- 4) Franchisee's Closet Factory Outlet; or
- 5) any lease or assets associated with any of the foregoing.

“Similar Business” - Any enterprise that offers, is otherwise involved in, or deals with any goods, products and/or services, which are substantially similar to those goods, Products and/or Services now or in the future authorized by Franchisor to be offered at or from Closet Factory Outlets (including any such enterprise and/or entity awarding franchises or licenses to operate or be involved with any such business). Franchisor's receipt of any royalties with respect to any Similar Business is not an approval of Franchisee's involvement with any Similar Business.

“Special Accounts” - Classes of special customers (which may include national accounts, retail chains, large builders, other large businesses, government agencies, and/or otherwise) as designated by Franchisor from time to time in Franchisor's Business Judgment. A Special Account includes, but is not limited to, any customer or potential customer who has multiple locations, at least one of which is outside Franchisee's territory.

“Terminate” or “Termination” - “Terminate” or “Termination” when used in this Agreement means the Termination or cancellation of Franchisee's rights and Franchisor's obligations under this Agreement for any reason before the initial term expires. All of Franchisor's rights are not cancelled on Termination since Franchisee has certain obligations that survive the ending of the Agreement in any manner, such as, but not limited to certain promises regarding non-competition, confidentiality and indemnity. Both Franchisor and Franchisee are bound by the dispute resolution provisions (Article 19) this Agreement, even after the Agreement is ended for any reason.

“Territory” - The geographic area described in Exhibit 2.2.

“Then-Current” means the form of agreement then-currently provided by Franchisor to similarly situated prospective Closet Factory franchisees which may contain terms and conditions that are materially different from this Agreement, or if not then being so provided, then a form of agreement selected by Franchisor in its discretion which previously has been delivered to and executed by a Closet Factory franchisee of Franchisor, or, as the context of this Agreement indicates, the fees then-currently charged by Franchisor or its Affiliates, or Franchisor's specifications, standards or the like.

“Trade Dress” - The Closet Factory Outlet design and image authorized by Franchisor and subject to change by Franchisor at any time and in Franchisor's Business Judgment.

“Trade Secret” - information that is proprietary to Franchisor and/or a Franchisor Related Person/Entity and i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use; and/or ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

“Traditional Closet Factory Outlet” - A “Traditional Closet Factory Outlet” means the business of advertising, marketing, designing, manufacturing, installing, servicing, and repairing custom closets and storage systems

according to the specifications, methods, standards, and procedures developed and prescribed by Franchisor, including the Franchised Business, other franchised businesses carried on by other Closet Factory franchisees under this or any similar form of agreement, and such additional lines of business as Franchisor may authorize Franchisee and other franchisees to engage in pursuant to this Agreement or any modification to this Agreement. Should Franchisor add to, subtract from, or otherwise modify, change or replace the name under which this business is conducted, the foregoing definitions will nevertheless apply to the business itself. A Traditional Closet Factory Outlet business does not include sales of related products over the internet.

“Transfer” - Defined in Section 14.2.

“Transfer Fee” means the fee that Franchisee must pay Franchisor as a condition precedent to an Assignment of this Agreement in the amount set forth in Section 14.3.A(11). At Franchisor's option, this fee is subject to adjustment each year during the Term by an amount equal to the change in the CPI as compared to the preceding year.

(Signatures on Next Page)

IN WITNESS WHEREOF, Franchisee and Franchisor have executed and delivered this Agreement in _____ counterparts on the day and year first above written.

THIS AGREEMENT WILL NOT BECOME EFFECTIVE UNLESS AND UNTIL SIGNED BY THE CHIEF EXECUTIVE OFFICER OR PRESIDENT OF FRANCHISOR. NO FIELD REPRESENTATIVE OR OTHER PERSON IS AUTHORIZED TO EXECUTE THIS AGREEMENT FOR FRANCHISOR.

FRANCHISOR:

The Closet Factory Franchise Corporation
a California corporation

By: _____

Title: _____

FRANCHISEE (Individual)

Signature

Signature

Printed Name

Printed Name

FRANCHISEE (Corp., LLC or Partnership)

Legal Name of Franchisee Entity

a _____
Jurisdiction of Formation

Corporation, LLC or Partnership

By: _____
Name

Signature

Title

THE CLOSET FACTORY FRANCHISE CORPORATION.

EXHIBIT 2.2

TERRITORY

The "Territory" is as follows:

The initial term of this Agreement commenced on _____. The expiration date of the initial term of this Agreement is _____.

Note: Boundary lines include only the area within the boundary line and extend only to the middle of the boundary demarcation (for example, only to the middle of a street or highway.) Franchisee has no rights under this Agreement or otherwise with respect to a facility on the other side of the boundary line, street or highway or otherwise, and no matter how close to such boundary a facility may be, regardless of the distance from, impact on, or vicinity of, Franchisee's Closet Factory Outlet or the number of Closet Factory Outlets, other outlets or otherwise in any area or market. Franchisee rights are limited as set forth in the Franchise Agreement.

FRANCHISOR:

THE CLOSET FACTORY FRANCHISE CORPORATION

By: _____

Its: _____

FRANCHISEE:

- ☐ an individual;
- ☐ a _____ general partnership;
- ☐ a _____ limited partnership;
- ☐ a _____ limited liability company;
- ☐ a _____ corporation

By: _____

Its: _____, and individually

THE CLOSET FACTORY FRANCHISE CORPORATION

EXHIBIT 3.2

Collateral Assignment of Lease

(Franchisee to present to Landlord at commencement of lease negotiations)

THIS COLLATERAL ASSIGNMENT OF LEASE (this "Assignment") is entered into as of _____, 20____, between _____ ("Franchisee") and The Closet Factory Franchise Corporation, a California corporation ("Franchisor").

Subject to the provisions of this Assignment, the Franchisee, to secure its obligations to the Franchisor under the franchise agreement between the Franchisor and the Franchisee for the operation of a Closet Factory Outlet, dated _____, 20____ (the "Franchise Agreement"), and under every agreement between the Franchisee and the Franchisor, hereby assigns, transfers and sets over unto Franchisor and/or such person(s)/entity(ies) as Franchisor may from time-to-time designate all of Franchisee's right, title and interest, whether as tenant or otherwise, in, to and under that certain lease (the "Lease"), a copy is attached to this Assignment, dated _____, 20____, between Franchisee and _____ ("Landlord"), respecting that property commonly known as _____ (the "Premises"). The Franchisor shall have no liabilities or obligations of any kind arising from, or in connection with, this Assignment, the Lease or otherwise (including, but not limited to, any obligation to pay rent and/or other amounts) until and unless the Franchisor, in its sole and absolute discretion, takes possession of the Premises pursuant to the terms of this Assignment and expressly (and in writing) assumes the rights and obligations of Franchisee under the Lease, the Franchisor only being responsible for those obligations accruing after the date of such assumption.

The Franchisee agrees to indemnify and hold harmless the Franchisor from and against all claims and demands of any type, kind or nature made by the Landlord or any third party that arise out of or are in any manner connected with the Franchisee's use and occupancy of the Premises subject to the Lease.

The Franchisee represents and warrants to the Franchisor that the Franchisee has full power and authority to assign the Lease and its interest in the Lease.

The Franchisor will not take possession of the Premises until and unless the Franchisee (or any affiliate) defaults (and/or until there is a termination, cancellation, rescission or expiration of the Franchisee's rights) under the Lease, any sublease, the Franchise Agreement or other agreement between the Franchisee and the Franchisor (or any affiliate), any other document or instrument, or otherwise. Among other things, such a default will be deemed to have occurred if the Franchisee (or any affiliate) (a) has defaulted, on two (2) or more separate occasions within any period of 12 consecutive months, or on three (3) or more separate occasions within any period of 24 consecutive months, in any obligation (whether the same or different), whether under the Lease, any sublease, the Franchise Agreement or other agreement between the Franchisee and the Franchisor (or any affiliate), the Manuals or otherwise, whether or not such defaults are or have been timely corrected, or (b) has committed any default, or has violated any obligation to Franchisor and/or any of the Franchisor-Related Persons/Entities, which is incurable or (c) has committed any default, or have violated any obligation to Franchisor and/or any of the Franchisor-Related Persons/Entities, which remains uncured after any applicable cure period. In such event, the Franchisor (or its designee) shall have the right, and is hereby empowered, (but has no obligation) to take possession of the Premises, expel Franchisee therefrom,

and, in such event, Franchisee shall have no further right, title or interest in or under the Lease or to the Premises, all such rights thereby passing to the Franchisor or its designee, in each case without the Landlord's further consent. The Franchisee agrees to do all acts necessary or appropriate to accomplish such assignment on the Franchisor's request. The Franchisee will reimburse the Franchisor for the costs and expenses incurred in connection with any such retaking, including, without limitation, the payment of any back rent and other payments due under the Lease (whether such payments are made by a separate agreement with the Landlord or otherwise), attorneys' fees and expenses of litigation incurred in enforcing this Assignment, costs incurred in reletting the Premises and costs incurred for putting the Premises in good working order and repair.

Franchisee agrees that it will not suffer or permit any surrender, termination, amendment or modification of the Lease without the prior written consent of Franchisor. Throughout the term of the Franchise Agreement, Franchisee agrees that it shall elect and exercise all options to extend the term of or renew or assume in bankruptcy the Lease not less than thirty (30) days prior to the last day that said option must be exercised, unless Franchisor otherwise agrees in writing. Upon failure of Franchisee to so elect to extend or renew or assume the Lease, Franchisee hereby appoints Franchisor as its true and lawful attorney-in-fact to exercise such options in the name, place and stead of Franchisee for the sole purpose of effecting any extension, renewal or assumption, in each case for the account of the Franchisee and without any liability or obligation of the Franchisor.

Failure of the Franchisor to exercise any remedy under this Assignment shall not be construed or deemed to be a waiver of any of its rights under this Assignment. The rights and remedies of the Franchisor under this Assignment are cumulative and are not in lieu of but are in addition to any other rights and remedies which the Franchisor shall have under or by virtue of the Franchise Agreement or otherwise. The terms, covenants, and conditions contained in this Assignment shall bind the Franchisee and its successors and assigns, and inure to the benefit of the Franchisor and its successors and assigns. In the event of any dispute between the parties regarding this Assignment, or any matter related in any way to it, the dispute resolution provisions (including, but not limited to, mediation, binding arbitration, waiver of jury trial and limitation of damages) of the Franchise Agreement between the Franchisor and the Franchisee shall apply. The arbitrator in any such proceeding shall have the full power and authority to grant an appropriate award to give full effect to this Assignment, expelling the Franchisee from the Premises and awarding possession to the Franchisor, as well as granting such other relief as may be proper and fair at law and by equity. If there is more than one Franchisee, their obligations under this Assignment will be joint and several.

This Assignment, any memorandum of this Assignment or any financial statement related to this Assignment may be recorded by, and at the expense of, the Franchisor. The Franchisee hereby appoints the Franchisor as its attorney in fact to execute any and all documents and to take any and all such actions, as are necessary or appropriate to record such instrument referenced above.

Notwithstanding anything to the contrary contained in this Assignment, the Franchisee agrees to indemnify, defend and hold harmless the Franchisor with respect to all obligations and liabilities, including, without limitation, the obligations to pay all rent and other monies due under the Lease, that arise after the date of any assignment of the Lease that transpires under this Assignment; provided, however, nothing under this Assignment shall affect any obligations or covenants of the Franchisee owed under its Franchise Agreement with the Franchisor, including, without limitation, any post-termination covenant not to compete.

(Signature Page Follows)

FRANCHISOR:

THE CLOSET FACTORY FRANCHISE CORPORATION

By: _____

Its: _____

FRANCHISEE (Individual)

Signature

Signature

Printed Name

Printed Name

FRANCHISEE (Corp., LLC or Partnership)

Legal Name of Franchisee Entity

a _____
Jurisdiction of Formation Corporation, LLC or Partnership

By: _____
Name

Signature

Title

LANDLORD APPROVAL:

The undersigned Landlord hereby consents to and approves of the above-described Collateral Assignment of Lease by the Franchisee to the Franchisor and further agrees that immediately upon notice to the Landlord, the Franchisor shall have the right to succeed the Franchisee as the tenant under the Lease without further action or consent by any of the parties to this Assignment; provided, however, nothing in the Assignment or in the consent and approval by the Landlord to the Assignment shall affect any other rights of the Landlord under the Lease.

LANDLORD:

By: _____

Its: _____

THE CLOSET FACTORY FRANCHISE CORPORATION

EXHIBIT 3.3

ADA AND RELATED CERTIFICATIONS

(Sign upon completion of build out of Franchisee's Closet Factory® Outlet)

THE CLOSET FACTORY FRANCHISE CORPORATION ("Franchisor") and _____ ("Franchisee") are parties to a franchise agreement dated _____, 20____ (the "Franchise Agreement") for the operation of a Closet Factory® Outlet at _____ (the "Outlet"). In accordance with Section 3.3 of the Franchise Agreement, Franchisee certifies to Franchisor that the Outlet and its adjacent areas comply with all applicable federal, state and local accessibility laws, statutes, codes, rules, regulations and standards, including but not limited to the Americans with Disabilities Act and all local zoning regulations and building codes. Franchisee acknowledges and agrees that it is an independent contractor and the requirement of this certification by Franchisor does not constitute ownership, control, leasing or operation of the Outlet. Franchisee acknowledges and agrees that Franchisor has relied on the information contained in this certification. Furthermore, Franchisee agrees to indemnify Franchisor and each and all of the Franchisor-Related Persons/Entities the Marketing Fund and any FMG or FAC, in connection with any and all claims, losses, costs, expenses, liabilities, compliance costs, and damages incurred by the indemnified party(ies) as a result of any matters associated with Franchisee's compliance (or failure to comply) with the Americans with Disabilities Act, all local zoning regulations and building codes and otherwise, as well as the costs, including attorneys' fees, related to the same.

FRANCHISEE (Individual)

Signature

Signature

Printed Name

Printed Name

FRANCHISEE (Corp., LLC or Partnership)

Legal Name of Franchisee Entity

a _____
Jurisdiction of Formation

Corporation, LLC or Partnership

By: _____
Name

Signature

Title

THE CLOSET FACTORY FRANCHISE CORPORATION

EXHIBIT 8.1

Closet Factory® Employee Confidentiality Agreement

(Note to Franchisee: This is a form which has not been checked by Franchisor for compliance with local laws and should be reviewed by Franchisee's attorney for Franchisee's protection and to maximize enforceability. Franchisee is responsible for ensuring that the terms of the agreement used by Franchisee comply with all applicable laws, since they may vary from one state or province to another).

In consideration of the employment of the below named Employee, and as inducement for disclosure by _____ [franchisee entity or individual name] (the "Franchisee"), doing business as an independent Closet Factory Franchisee, for the continuation of such employment, and for the compensation which I have received and may receive during the period of such employment, I, the undersigned Employee, hereby agree that during my employment with the Franchisee and for any post-term periods specified in this Agreement:

- 1) My employment by the Franchisee will be in accordance with the policies, rules and regulations of the Franchisee, as the same now exist, or as they may be established or modified from time to time.
- 2) The Franchisee has, subject to a Franchise Agreement with The Closet Factory Franchise Corporation, (the "Franchisor") acquired specified rights to use certain "Confidential Information," which includes all information (current and future) relating to the operation of a Closet Factory Outlet or the Closet Factory System, including, among other things, all: (a) Manuals, training, techniques, processes, policies, procedures, systems, data and know how regarding the development, marketing, operation and franchising of Closet Factory Outlets; (b) designs, specifications and information about Products and Services, (c) all information regarding customers and suppliers, customer, supplier and product lists, technical processes and know how, specifications, manuals, notes, reports, memoranda, data, equipment and/or secured areas (in written, audio, magnetic and/or electronic format), including any statistical and/or financial information and all lists, together with various designs, techniques, know-how, marketing concepts and information, operating procedures and technical information and ancillary products, services and techniques and other related applications which are not generally known in the industry or to the public, and, in addition, (d) any other items that an arbitrator or court deems reasonably appropriate for protection.
- 3) "Confidential Information" is not intended to include any information that: is or subsequently becomes publicly available (other than by breach of any legal obligation), or became known to Franchisee other than through a breach of a legal obligation.
- 4) By virtue of my employment by the Franchisee, the Employee will or may have access to Confidential Information.
- 5) With reference to the Confidential Information, I agree as follows:

a) The Confidential Information is a valuable trade secret licensed to the Franchisee by the Franchisor and/or related companies, and I will not use the Confidential Information other than within the course and scope of my employment responsibilities and functions.

b) I will not release or divulge any Confidential Information unless first expressly authorized to do so in writing by a superior or an officer of the Franchisee; provided, however, that during the period of my employment, I will be permitted to release or divulge the same, or any portion thereof, to persons employed or otherwise closely associated with the Franchisee, but only to the extent that such persons have a need to know the same within the course and scope of their employment by, or close association with, the Franchisee (for example, attorneys and/or accountants retained by the Franchisee.)

c) Any and all publications/copies/disclosures of the Confidential Information in any form, which may be presented to Me or to which I may be granted access, are on loan and will at all times remain, the exclusive property of the Franchisee and/or the Franchisor; the Confidential Information is being given to Franchisee in trust and confidence; and I will accept the same subject to such trust.

d) During the period of my employment by the Franchisee, I will take all necessary steps to safeguard and maintain the secrecy and confidentiality of the Confidential Information in my possession or control, including (by way of illustration and not limitation) (i) securing the Confidential Information in locked or otherwise secured files; and (ii) refraining from making copies or reproductions of the Confidential Information, or any portions thereof, unless necessary for the carrying out of my employment responsibilities, or if first expressly authorized to do so by a superior or an officer of the Franchisee.

e) Upon the termination of my employment by the Franchisee, I will immediately return to the Franchisee any and all Confidential Information and all copies thereof, which may have been entrusted to me or which I may have generated or copied, as well as any physical property of the Franchisee, including books, tapes, equipment, and the like, whether proprietary or not, which I may have in my possession or control.

f) My obligations with respect to the Confidential Information will continue beyond the period of my employment.

6) All inventions, discoveries, developments, improvements, innovations, and writings, whether or not eligible for patent and/or copyright protection (hereinafter collectively referred to as "Innovations" or "Inventions" as may be appropriate), conceived or made by Me either solely or in concert with others, during the period of my employment by the Franchisee (including, but not limited to, any period prior to the Effective Date) whether or not made or conceived during working hours, which (a) relate in any manner to the existing or contemplated business, or the development of activities, of the Franchisee and/or the Franchisor, or (b) are suggested by, or result from, my work for the Franchisee, or (c) result from my use of the Franchisee's time, materials, or facilities, will be the sole and exclusive property of the Franchisor. Any Inventions made by Me, or disclosed by Me to a third party, or described in a patent application of mine, within 9 months following the period of my employment by the Franchisee, will be presumed to have been conceived or made by Franchisee during the period of my employment with the Franchisee, unless I can prove they were entirely conceived and made by me following the period of such employment.

7) I will promptly make a full disclosure to the Franchisor, and hold in trust for the sole right and benefit of the Franchisor, any and all Inventions which I may solely or jointly conceive, write, develop, reduce to practice; or cause to be conceived, written, developed, or reduced to practice, during the period of time I am employed by the Franchisee, and thereafter in accordance with the provisions of this Agreement.

8) I hereby assign and agree to assign to the Franchisor, all of my right, title and interest in and to all my Inventions, if any, and agree, during and subsequent to my employment, to execute and deliver to the Franchisor, ownership, title and exclusive rights therein, all without charge.

9) I hereby assign and agree to assign to the Franchisor all of my right, title and interest in and to any and all United States and foreign patents and copyrights covering my Inventions, and all reissues, registrations and renewals thereof. I further agree, during and subsequent to my employment, to aid (i) in the prosecution of any United States or foreign applications for Letters Patent or the registration of copyrights covering such inventions and (ii) in the enforcement of any such patents or copyrights. In this connection, I will, at the Franchisor's request and expense, execute, acknowledge, agree and deliver any and all documents and oaths, and take such further action considered necessary by the Franchisor for the foregoing purposes, without charge.

10) In the event the Franchisor is unable, for any reason whatsoever, to secure my signature to any lawful and necessary documents required to assign, apply for, or prosecute any United States or foreign applications for Letters Patent or the registration of copyrights in and to my Inventions or otherwise which belong to the Franchisor by virtue of the provisions of this Agreement or otherwise, I hereby irrevocably designate and appoint the Franchisor and its duly authorized officers and agents as my agent and attorney-in-fact, to act for and in my behalf and stead to execute and file any such assignments and applications, and to do all other lawfully permitted acts to further the prosecution and issuance of Letters Patent thereon and/or registrations of copyrights with the same legal force and effect as if executed by me.

11) My compensation as an employee of the Franchisee will cover any Inventions which I may conceive or make under this Agreement, and I will not be entitled to any additional compensation therefore.

12) I represent to the Franchisee and the Franchisor that I have no right, title or interest in or to any invention which has been made, conceived or reduced to practice by me (solely or jointly with others) prior to my employment by the Franchisee.

13) My services, and the Confidential Information which may be entrusted to me, are unique, and, if I breach this Agreement, the Franchisee and the Franchisor will not be adequately compensated by damages. Therefore, if I violate the terms of this Agreement, either during or after my employment, the Franchisee and the Franchisor will be entitled, in addition to all other remedies available to either, to equitable relief by injunction or otherwise, thereby enjoining or restraining me, and those persons acting in concert with Me, from the continuation of any breaches of this Agreement. The right to equitable relief granted in the foregoing sentence will not preclude the Franchisee or the Franchisor from seeking actual money damages from me or any other party in the event of a breach or threatened breach of this Agreement.

14) During my employment by the Franchisee, and for one year after termination of such employment, I will not conduct, operate, consult, advise or in any manner be associated, directly or indirectly, with any business or operation substantially similar to or competitive with that conducted by the Franchisee within the Franchisee's Territory (as defined by Franchisee's franchise agreement). Such restriction includes the furnishing and/or use of the Confidential Information to any person and/or entity, whether gratuitously, on a consulting basis, as an owner, shareholder, partner, employee or associate. For informational purposes, the Territory as it currently exists is shown on an exhibit to this Agreement.

15) Nothing contained in this Agreement will be construed to prevent me from engaging in a lawful profession, trade or business after my employment with the Franchisee. I confirm that I possess valuable skills

unrelated to the Franchised Business and have the ability to be self-supporting and employed regardless of the restrictions described in this Agreement. I also acknowledge and agree that the restrictions of this Agreement will not prevent me from practicing a lawful profession, trade, or business and are limited to the express restrictions detailed in this Agreement. This Agreement will be construed only as one which prohibits me from engaging in practices unfair to the Franchisee, and which violate the confidence and trust reposed in me by the Franchisee with respect to its Confidential Information.

16) The parties agree to the following dispute resolution provisions:

a) Any litigation, claim, dispute, suit, action, controversy, or proceeding of any type whatsoever including any claim for equitable relief and/or where Franchisee is acting as a "private attorney general," suing pursuant to a statutory claim or otherwise, between or involving Franchisee and Franchisor on whatever theory and/or facts based, and whether or not arising out of this Agreement, and including any dispute involving the Franchisor, ("Claim") will be processed in the following manner, Franchisee and Franchisor each expressly waiving all rights to any court proceeding, except as expressly provided below at sub-sections (g) and (h) below:

i) First, submitted to non-binding mediation for a minimum of 4 hours before (1) Franchise Arbitration and Mediation, Inc. ("FAM") or its successor (or an organization designated by FAM or its successor), or (2) any other mediation organization approved by all parties, or (3) by Judicial Arbitration and Mediation Service ("JAMS") or its successor (or an organization designated by JAMS or its successor), if FAM cannot conduct such mediation and the parties cannot agree on a mediation organization. The Franchisee will pay the costs of the first 4 hours of any mediation, and no mediation is required to extend beyond such 4 hour period. Any mediation/arbitration (and any appeal of arbitration) will be conducted by a mediator/arbitrator experienced in franchising. Any party may be represented by counsel and may, with permission of the mediator, bring persons appropriate to the proceeding.

ii) Second, submitted to and finally resolved by binding arbitration before and in accordance with the arbitration rules of FAM or its successor (or an organization designated by FAM or its successor); provided that if such arbitration is unable to be heard by any such organization(s), then the arbitration will be conducted before and in accordance with the arbitration rules of JAMS or its successor (or an organization designated by JAMS or its successor); provided that, in any case, arbitration may be filed prior to a face-to-face meeting and/or mediation, with such face-to-face meeting and/or mediation to follow as quickly thereafter as possible.

iii) Third, a final award by an arbitrator (there will be no appeal of interim awards or other interim relief), may be appealed within 30 days of such final award. Appeals will be conducted before a 3-arbitrator panel appointed by the same organization as conducted the arbitration, each member of which must be experienced in franchising. The arbitration panel will not conduct any trial de novo or other fact-finding function. Such panel's decision will be in writing, may be entered in any court having jurisdiction and will be binding, final and non-appealable.

b) Any mediation/arbitration (and any appeal of arbitration) will be conducted at the Franchisee's then-current principal offices and by a mediator/arbitrator experienced in the legal subject matter of the matter; but if the Franchisor provides notice that it believes its interests are involved in any such mediation/arbitration, in which case the mediation/arbitration will be conducted at the Franchisor's then-current principal offices (the Franchisor's present principal offices are located at 12800 South Broadway, Los Angeles, California 90061) and the parties understand that conducting any mediation/arbitration at those

offices, or at the Franchisee's or Franchisor's then-current principal offices, may involve additional expense and/or inconvenience for the undersigned). The Franchisee will pay the fees and expenses of the mediator(s) and arbitrator(s) (but if the Franchisor provides notice that it believes its interests are involved in any such mediation/arbitration the Franchisor and Franchisee will equally share such costs); provided that i) the parties will otherwise each bear their own costs, including attorneys' fees, and ii) for matters not settled through agreement of the parties, the arbitrator may assess all, or any portion, of the fees and costs incurred in connection with any arbitration and/or appeal (but not any attorneys' fees) against the party who does not prevail. Each participant must submit or file any claim which would constitute a compulsory counterclaim (as defined by the applicable rule under the Federal Rules of Civil Procedure) within the same proceeding as the claim to which it relates. Any such claim, which is not submitted or filed in such proceeding, will be forever barred. The arbitrator's award will be in writing. On request by either party, the arbitrator (or appeal panel) will provide to all disputants a reasoned opinion with findings of fact and conclusions of law and the party so requesting will pay the arbitrator's fees and costs connected therewith.

c) Judgment on any preliminary or final arbitration award (subject to the opportunity for appeal as contemplated above) may be entered in any court having jurisdiction and will be binding, final and non-appealable.

d) The parties each knowingly waive all rights to trial by a court or jury, understanding that arbitration may be less formal than a court or jury trial, may use different rules of procedure and evidence and that appeal is generally less available, still strongly preferring, and having mutually selected, mediation and/or arbitration as provided in this Agreement to resolve any disputes, the parties having had an express meeting of the minds on each of these matters. The Franchisee intends to, and the Employee expressly agrees that the Franchisee may, fully enforce each of the provisions of this Agreement, including those relating to arbitration, waiver of jury trial, venue, choice of laws, or otherwise, having had an express meeting of the minds regarding each of such matters.

e) Notwithstanding any provision of this Agreement or otherwise relating to which state or other laws this Agreement will be governed by, any provisions of state, or other law to the contrary, the Franchisee and the Employee mutually intend and agree that (i) the arbitrator will decide any and all questions relating in any way to the parties' agreement (or claimed agreement) to arbitrate, including but not limited to applicability, subject matter, timeliness, scope, remedies, claimed unconscionability and any alleged fraud in the inducement and/or the enforcement of the agreement to arbitrate contained in this Agreement and that this Agreement and all related matters will be governed exclusively by the Federal Arbitration Act (9 U.S.C. § 1 et seq.) and the federal common law of arbitration and (ii) the Franchisee and the Employee mutually intend and agree (and have expressly had a meeting of the minds) to fully enforce all of the provisions of this Agreement and all other documents signed by the Franchisee and the Employee, including (but not limited to) all venue, choice of law, mediation/arbitration provisions and other dispute avoidance and resolution provisions and to rely on federal preemption under the Federal Arbitration Act (9 U.S.C. § 1 et seq.).

f) No party will be required to post a bond in order to obtain any injunctive or other equitable relief. Any claim will be conducted and resolved on an individual basis only and not on a class-wide, multiple plaintiff or similar basis.

g) These dispute resolution provisions apply to any claims/arbitration between the parties (including any dispute involving the Franchisor and/or any person/entity related in any way to it), and/or by any owner and/or affiliate thereof, or which could be brought in their behalf or by any successor; provided that any claims or disputes relating primarily to the validity of the Franchisor's Marks and/or any Intellectual

Property licensed to the Franchisee will be subjected to court proceedings; provided that only the portion of any claim or dispute relating primarily to the validity of the Marks and/or any Intellectual Property licensed to the Franchisee and requesting equitable relief will be subject to court action, and any portion of such claim seeking monetary damages will be subject to the process outlined above

h) Subject to the foregoing obligations regarding mediation/arbitration, any litigation (for example, to enforce such obligations) between the undersigned (or involving the Franchisor) will be held in the United States District Court encompassing the Franchisee's then-current headquarters (the "Proper Federal Court"). Proceedings will be held only in the Proper Federal Court, subject to the following exceptions:

i) if a basis for federal jurisdiction does not exist, then any such proceeding will be brought exclusively before a court in the most immediate state judicial district encompassing the Franchisee's then-current headquarters and having subject matter jurisdiction (the "Proper State Court");

ii) proceedings to remove or transfer a matter to the Proper Federal Court and/or to compel arbitration as contemplated by this Agreement may be brought in the court where the applicable action is pending and/or the Proper State or Federal Court; and

iii) any action primarily with respect to any real and/or personal property (including any action in unlawful detainer, ejectment or otherwise) may be brought in any court of competent jurisdiction and/or the Proper State or Federal Court.

17) Upon the termination of the Employee's employment, the Franchisee will notify anyone thereafter employing Franchisee of the existence and provisions of this Agreement.

18) The employee understands that his/her employment is at will, and that just as the Employee may terminate his/her employment at any time and for any reason (or for no reason), the Franchisee may do the same, unless a fixed term is specified in this Agreement or in another writing, executed by the Employee and the Franchisee.

19) The Employee represents that he/she has no existing agreements with, obligations to, or interest in any other party that keep the Employee from complying with his/her obligations under this Agreement, or which may give rise to a conflict of interest, except those identified on the attached list signed by the Employee and the Franchisee. If no list is attached, the Employee agrees that there are no such agreements, obligations or interests on my part. In addition, the Employee agrees to promptly disclose in writing to his/her superior any future agreements, obligations and/or interests which may preclude or conflict with his/her obligations under this Agreement.

20) The Employee will not use on behalf of, or divulge to, the Franchisee, or its agents or employees, during his/her employment by the Franchisee, confidential or trade secret information acquired during any prior employment of his/hers or from any other source outside of the Franchisee, provided, of course, that the Employee knows or should know of its nature as confidential or a trade secret.

21) The Employee understands and confirms that he/she has no authority whatsoever to make any commitment or enter into any arrangement or contract on behalf of the Franchisee unless authorized by an officer of the Franchisee in writing.

22) The Franchisee and the Employee agree that this Agreement supersedes any prior oral agreement and/or written agreement by and between them relating generally to the subject matter of this Agreement; the Employee represents and warrants that there are no such prior oral agreement and/or written agreements.

23) The Franchisee and the Employee agree that, if it is determined that any provision of this Agreement is illegal or unenforceable, such provision will be enforced to the fullest extent permissible under governing law and such determination will solely affect such provision and not impair the remaining provisions of this Agreement. The time period of the restrictions described in this Agreement will be extended by the length of time during which the Employee is in breach of any such provision of this Agreement.

24) The Franchisee and the Employee agree that this Agreement will be construed, and the validity, performance and enforcement of this Agreement will be governed by the laws of the State in which the Franchisee's headquarters is located.

25) A waiver by the Franchisee or Franchisor of any breach of this Agreement on the Employee's part will not operate as or be construed as a waiver of any subsequent breach of this Agreement.

26) This Agreement will inure to the benefit of and be enforceable by the Franchisee and the Franchisor, and any successors and assigns of the foregoing, and that it will be binding upon the Employee, his/her executors, administrators, legatees, distributees, heirs and other successors in interest. The Franchisor is an intended third-party beneficiary of this Agreement and may protect its interests by enforcing the parties' obligations, but the Franchisor is not a party to this Agreement, is not the employer of, and has no obligations to, the Employee.

27) The Employee has read the foregoing provisions, understands that this Agreement defines the terms and conditions under which the Franchisee is willing to employ or continue to employ the Employee, is executing this Agreement and agreeing to abide by its provisions voluntarily, and the Franchisee has given the Employee a copy of this Agreement for his/her future reference so as to avoid any possible oversights or misunderstandings regarding its provisions.

(Signature Page Follows)

Dated _____, 20____ at _____, _____
City State

FRANCHISEE (Individual)

EMPLOYEE

Signature

Signature

Printed Name

Employee's Printed Name

Signature

Printed Name

FRANCHISEE (Corp., LLC or Partnership)

Legal Name of Franchisee Entity

a _____
Jurisdiction of Formation Corporation, LLC or Partnership

By: _____
Name

Signature

Title

THE CLOSET FACTORY FRANCHISE CORPORATION

EXHIBIT 9.1

CURRENT FORM OF
RELEASING LANGUAGE
(SUBJECT TO CHANGE BY FRANCHISOR)
(This is a Form - Not for Signature)

Release - General Provisions. By giving Franchisor this general release (this "Release"), the Franchisee(s), jointly and severally, hereby release and forever discharge each and all of the Franchisor-Related Persons/Entities (as defined below) of and from any and all causes of action, in law or in equity, suits, debts, liens, defaults under contracts, leases, agreements or promises, liabilities, claims, demands, damages, losses, costs or expenses, of any nature whatsoever, howsoever arising, known or unknown, fixed or contingent, past or present, that the Franchisee(s) (or any of them) now has or may hereafter have against all or any of the Franchisor-Related Persons/Entities by reason of any matter, cause or thing whatsoever from the beginning of time to the date of this Agreement (the "Claims"), it being the mutual intention of the parties that this release be unqualifiedly general in scope and effect and that any Claims against any of the Franchisor-Related Persons/Entities are hereby forever canceled and forgiven.

THE FRANCHISEE (S) ACKNOWLEDGE THAT THEY ARE FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, AND THAT IF KNOWN BY HIM WOULD HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

THE FRANCHISEE(S), BEING AWARE OF THIS CODE SECTION, HEREBY EXPRESSLY WAIVE ALL OF THEIR RIGHTS THEREUNDER AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT OF ANY APPLICABLE JURISDICTION, INCLUDING, WITHOUT LIMITATION, CALIFORNIA AND/OR JURISDICTIONS OF FRANCHISEE(S)' RESIDENCE AND LOCATION OF FRANCHISED UNIT PROVIDED THAT IF THIS RELEASE IS GIVEN IN CONNECTION WITH THE AWARD OF A FRANCHISE, THEN THIS RELEASE WILL NOT APPLY TO CLAIMS RELATING TO THE OFFER AND SALE OF SUCH FRANCHISE UNDER THE CALIFORNIA FRANCHISE INVESTMENT LAW OR ANY RULE OR ORDER ISSUED THEREUNDER.

The Franchisee(s) expressly assume the risk of any mistake of fact or fact of which they may be unaware or that the true facts may be other than any facts now known or believed to exist by Franchisee(s), and it is the Franchisee(s) intention to forever settle, adjust and compromise any and all present and/or future disputes with respect to all matters from the beginning of time to the date of this document finally and forever and without regard to who may or may not have been correct in their understanding of the facts, law or otherwise. All releases given by the Franchisee(s) are intended to constitute a full, complete, unconditional and immediate substitution for any and all rights, claims, demands and causes of action whatsoever which exist, or might have existed, on the date of this document. The Franchisee(s) represent and warrant that they have made such independent investigation of the facts, law and otherwise pertaining to all matters discussed, referred to or released in or by this document as the Franchisee(s), in the Franchisee(s) independent judgment, believe necessary or appropriate. The Franchisee(s) have not relied on any statement, promise, representation

or otherwise, whether of fact, law or otherwise, or lack of disclosure of any fact, law or otherwise, by the Franchisor-Related Persons/Entities or anyone else, not expressly set forth in this Release, in executing this document and/or the related releases.

Franchisee(s) Initials: _____

No Assignment or Transfer of Interest. The Franchisee(s) represent and warrant that there has been, and there will be, no assignment or other transfer of any interest in any Claims that the Franchisee(s) may have against any or all of the Franchisor-Related Persons/Entities, all Claims having been fully and finally extinguished, and the Franchisee(s) agree to forever indemnify and hold the Franchisor-Related Persons/Entities harmless from any liability, claims, demands, damages, losses, costs, expenses or attorneys' fees incurred by any of the Franchisor-Related Persons/Entities as a result of any person asserting any interest in any of the Claims and/or any voluntary, involuntary or other assignment or transfer, or any rights or claims under any assignment, transfer or otherwise. It is the intention of the parties that this indemnity does not require payment by any of the Franchisor-Related Persons/Entities as a condition precedent to recovery against the Franchisee(s) under this indemnity.

Franchisee(s) Initials: _____

Attorneys' Fees. If the Franchisee(s), or anyone acting for, or on behalf of, the Franchisee(s) or claiming to have received, by assignment or otherwise, any interest in any of the Claims, commence, join in, or in any manner seek relief through any suit (or otherwise) arising out of, based upon or relating to any of the Claims released under this Release or in any manner asserts against all or any of the Franchisor-Related Persons/Entities any of the Claims released under this Release, the Franchisee(s) agree to pay all attorneys' fees and other costs incurred by any of the Franchisor-Related Persons/Entities in defending or otherwise responding to said suit or assertion directly to the Franchisor-Related Persons/Entities incurring such costs.

Franchisee(s) Initials: _____

"Franchisor-Related Persons/Entities." Franchisor, Franchisor's affiliates, any advertising fund, including the Marketing Fund, any FMG, any Franchisee Advisory Group/FAC and each of the following, whether past, current or future: companies and/or persons acting through and/or in concert with Franchisor and/or with any of the foregoing; partners, shareholders, officers, directors, agents, attorneys, accountants, and/or employees of Franchisor and/or of any of the foregoing; and predecessors, successors and/or assigns of Franchisor and/or of any of the foregoing.

Franchisee(s) Initials: _____

Date of Releases, Joint and Several Liability. The releases granted under this Release will be deemed effective as of the date of this Agreement. The liabilities and obligations of each of the Franchisee(s) (and any other person/entity providing releases to the Franchisor-Related Persons/Entities) will be joint and several.

Franchisee(s) Initials: _____

This General Release does not apply with respect to claims arising under the Washington Franchise Investment Protection Act, RCW 19.100, and the rules adopted thereunder.

THE CLOSET FACTORY FRANCHISE CORPORATION

EXHIBIT 14.4

OWNER'S GUARANTY AND ASSUMPTION OF
BUSINESS ENTITY FRANCHISEE'S OBLIGATIONS

(Sign only if Franchisee is a Business Entity)

In consideration of, and as an inducement to, the execution by THE CLOSET FACTORY FRANCHISE CORPORATION, a California corporation, ("Franchisor") of a franchise agreement of even date herewith (the "Agreement") between Franchisor and _____, a(n) _____ (state/province of formation) _____ (type of entity: LLC, LLP, corporation, etc.) (the "Business Entity Franchisee"), each of the undersigned (collectively, "Guarantors") hereby personally and unconditionally, jointly and severally:

1) give this Owner's Guaranty and Assumption of Business Entity Franchisee's Obligations (this "Guaranty") to fully guarantee to Franchisor, its Affiliates, the Franchisor-Related Persons/Entities, Marketing Fund and any FMG (as such terms are defined in the Agreement) and each of their successors and assigns, for the Term of the Agreement, and for any renewal/successor franchise term, and thereafter as provided in the Agreement, that the Business Entity Franchisee will punctually pay and perform, each and every undertaking, agreement and covenant set forth in the Agreement, as currently set forth and as amended and/or otherwise changed in the future, including any successor franchise agreement;

2) agrees to be personally bound by, and personally liable for, the breach of, each and every provision in the Agreement (including all confidentiality, non-competition, indemnity and Post Termination Provisions), as currently set forth and as amended or otherwise changed in the future, including any successor franchise agreement; and

3) agrees to be personally bound by, and personally liable for, each past, current and/or future obligation of the Business Entity Franchisee to Franchisor, its Affiliates, the Franchisor-Related Persons/Entities and/or the Marketing Fund and/or any FMG, and each of their successors and assigns.

The undersigned intending that the guarantees and other obligations in this Guaranty be unqualifiedly general and without limitation in scope, nature and/or effect. Franchisor, and/or its Affiliates, the Franchisor-Related Persons/Entities and/or the Marketing Fund and/or any FMG, and each of their successors and assigns, need not bring suit first against the undersigned in order to enforce this guarantee and may enforce this guarantee against any or all of the undersigned as it chooses in its/their sole and absolute discretion.

Each of the undersigned waives presentment, demand, notice of demand, dishonor, protest, nonpayment, default and all other notices whatsoever, including (without limitation): acceptance and notice of acceptance, notice of any contracts and/or commitments, notice of the creation and/or existence of any liabilities under the Agreement or otherwise and of the amounts, terms or otherwise thereof; notice of any defaults, disputes or controversies between the Franchisor and the Business Entity Franchisee or otherwise, and any settlement, compromise or adjustment thereof; any right the undersigned may have to require that an action be brought against Franchisor, Business Entity Franchisee or any other person as a condition of liability, and any and all other notices and legal or equitable defenses to which he or she may be entitled.

Each of the undersigned consents and agrees that:

- 1) his or her direct and immediate liability under this guaranty will be joint and several;
- 2) he and/or she will render any payment or performance required under the Agreement on demand if the Business Entity Franchisee fails or refuses to do so punctually;
- 3) such liability will not be contingent or conditioned on pursuit by Franchisor or otherwise of any remedies against the Business Entity Franchisee or any other person;
- 4) such liability will not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence which Franchisor or otherwise may from time to time grant to the Business Entity Franchisee or to any other person, including, without limitation, the acceptance of any partial payment or performance, or the compromise or release of any claims, none of which will in any way modify or amend this guaranty, which will be continuing and irrevocable during the Term of the Agreement and any renewal/successor franchise term;
- 5) the liabilities and obligations of the undersigned, whether under this document or otherwise, will not be diminished or otherwise affected by the Termination, rescission, expiration, renewal, award of a successor franchise, modification or otherwise of the Agreement;
- 6) terms not defined in this document will have the meanings assigned in the Agreement; and
- 7) the provisions of Articles 18 through 22 of the Agreement are incorporated in and will apply to this document as if fully set forth in this Guaranty and will apply to any dispute involving the Franchisor, its Affiliates, the Franchisor-Related Persons/Entities, the Marketing Fund and/or any FMG or FAC and each of their successors and assigns and any of the undersigned.
- 8) This Guaranty may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Copies of this Guaranty with signatures that have been transmitted by email or by facsimile shall constitute and be deemed original copies of this Guaranty for all purposes, provided that the copies are fully executed, dated and identical in form to the original hard copy version of this Guaranty. In addition, this Guaranty may be signed electronically by the Guarantors and electronic signatures appearing on this Guaranty shall be deemed to be the same as handwritten signatures for the purposes of the validity, enforceability and admissibility of this Guaranty.

In connection with such guarantee and the Franchisor (a) not requiring that the Franchise be initially awarded in the name of one or more of the Guarantors and/or (b) not requiring the payment of a full Transfer Fee in connection with any related transfer from the undersigned to the Business Entity Franchisee, each of the undersigned hereby grants a General Release of any and all claims, liabilities and/or obligations, of any nature whatsoever, however arising, known or unknown, against the Franchisor, its Affiliates, the Franchisor-Related Persons/Entities, the Marketing Fund and/or any FMG or FAC and each of their successors and assigns.

(Signature Page Follows)

IN WITNESS WHEREOF, each of the undersigned has here unto affixed his, her, or their signature or signatures on the same day and year as the Agreement was executed.

GUARANTOR(S)

PERCENTAGE OF OWNERSHIP
OF BUSINESS ENTITY FRANCHISEE

Signature: _____

_____ %

Name:

Social Security Number _____

Signature: _____

_____ %

Name:

Social Security Number _____

Signature: _____

_____ %

Name:

Social Security Number _____

Business Entity Franchisee:

_____, a _____ corporation.

By _____

Its _____

Social Security Number/FEIN _____

THE CLOSET FACTORY FRANCHISE CORPORATION

EXHIBIT 21

ENTITY INFORMATION DISCLOSURE

If Franchisee is an entity, Franchisee represents and warrants that the following information is accurate and complete in all material respects:

- (1) Franchisee is a (check as applicable):
[] corporation
[] limited liability company
[] general partnership
[] limited partnership
[] Other (specify): _____

State of incorporation/organization: _____

Name of Franchisee entity: _____

Federal Tax Identification Number: _____

(2) Franchisee shall provide to Franchisor concurrently with the execution of this Agreement true and accurate copies of its charter documents including Articles of Incorporation, Bylaws, Operating Agreement, Partnership Agreement, resolutions authorizing the execution of this Agreement and any amendments to the foregoing ("Entity Documents").

(3) Franchisee promptly shall provide such additional information as Franchisor may from time to time request concerning all persons who may have any direct or indirect financial interest in Franchisee.

(4) The name and address of each of Franchisee's owners, members, or general and limited partner:

NAME	ADDRESS	NUMBER OF SHARES OR PERCENTAGE INTEREST

(5) There is set forth below the names, and addresses and titles of Franchisee's principal officers or partners who will be devoting their full time to the Business:

NAME	ADDRESS

(6) The address where Franchisee's Financial Records, and Entity Documents (are maintained is: _____.

(Signature Page Follows)

FRANCHISOR:

THE CLOSET FACTORY FRANCHISE CORPORATION

By: _____

Its: _____

FRANCHISEE:

[] an individual;

[] a _____ general partnership;

[] a _____ limited partnership;

[] a _____ limited liability company;

[] a _____ corporation

By: _____

Its: _____, and individually

EXHIBIT C

TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION
CONFIDENTIALITY AGREEMENT

THE CLOSET FACTORY FRANCHISE CORPORATION
CONFIDENTIALITY AGREEMENT

THIS CONFIDENTIALITY AGREEMENT (this "Agreement") is made this _____ day of _____, 20__ (the "Effective Date"), by and between THE CLOSET FACTORY FRANCHISE CORPORATION, a California corporation ("Franchisor"), on the one hand, and _____, a _____ ("Candidate"), on the other hand, with reference to the following facts:

A. Franchisor and Franchisor's affiliate, The Closet Factory, Inc., a California corporation, have developed the "Closet Factory System" for the establishment and operation of Closet Factory businesses which will market, install, repair and service custom closets and storage systems for consumers and sell other related products and services ("Closet Factory Outlets") under the trade name and service mark "Closet Factory" and other related trademarks, service marks, logos and commercial symbols (collectively, the "Closet Factory Marks"). The "Closet Factory System" means the system developed by Franchisor and Franchisor's affiliate that includes operating methods and business practices related to Closet Factory Outlets, the relationship between Franchisor and its franchisees, interior and exterior design, other items of trade dress, specifications for equipment, fixtures and uniforms, defined product offerings, specified pricing and promotions, restrictions on ownership, standard operating and administrative procedures, management and technical training programs, marketing and public relations programs, and Franchisor's website, all as Franchisor may modify the same from time to time.

B. Franchisor has the right to use, and to license others to use, the Closet Factory Marks and the Closet Factory System, and has, as a result of its expenditure of time, skill, effort, and money, developed a distinctive franchise model for qualified franchisees to obtain the right to operate a Closet Factory Outlet using the Closet Factory Marks and the Closet Factory System (the "Franchised Business").

C. Franchisor may provide Candidate with confidential and proprietary information regarding the Closet Factory System prior to granting or declining to grant Candidate a franchise. Franchisor desires that Candidate maintain the confidentiality of all such confidential and proprietary information on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, IT IS AGREED:

1. INCORPORATION OF RECITALS.

The recitals set forth in Paragraph A through Paragraph C above are true and correct and are hereby incorporated by reference into the body of this Agreement.

2. CONFIDENTIALITY.

Candidate acknowledges and agrees that:

2.1. Confidential Information. Candidate's knowledge of the elements of the Closet Factory System and any other proprietary data that may be disclosed to Candidate by Franchisor, or any affiliate of Franchisor, including, without limitation, any and all confidential and/or proprietary knowledge, data or information of a party and any and all confidential and/or proprietary knowledge, data or information which a party has obtained or obtains from another person or entity and which a party treats as proprietary

or designates (whether or not in writing or electronic form) as “Confidential Information”. By way of illustration, but not limitation, “Confidential Information” includes tangible and intangible information (whether or not in electronic form) relating to Franchisor’s business operations, styles, products and services, sources of materials and equipment, customer management and other software, data, other content, formulations, patterns, compilations, programs, devices and processes, business relationships, contact information for industry professionals, developmental or experimental work and services, improvements, discoveries, plans for research, potential new or supplemental products and services, websites, advertisements or ancillary products and services, marketing and selling methods and/or plans, business plans, budgets and unpublished financial statements, licenses, prices and costs, vendors, collaborators, current customer and prospective customer names and addresses, information regarding credit extensions to customers, customer service purchasing histories and prices charged to customers, customer lists and other customer data, information regarding the skills and compensation of employees and contractors of Franchisor, designs, drawings, specifications, source code, object code, documentation, diagrams, flowcharts, research, development, marketing techniques and materials, trademarks, trade secrets, sales/license techniques, inventions, copyrightable material, trademarkable material, databases, relationships between Franchisor and other companies, persons or entities, the Closet Factory System, and any other information or material considered proprietary by Franchisor whether or not designated as confidential information by Franchisor, that is not generally known by the public, or which derives independent economic value (actual or potential) from not being generally known to the public or persons unaffiliated with Franchisor or its affiliates and which is the subject of efforts by Franchisor that are reasonable under the circumstances to maintain its secrecy, and any other information in oral, written, graphic or electronic form which, given the circumstances surrounding its disclosure, would be considered confidential. Confidential Information also includes the manner in which any of the above described items may be combined with any other information or products or synthesized or used by Candidate. Confidential Information does not include any information that was in the lawful and unrestricted possession of Candidate prior to its disclosure by Franchisor; is or becomes generally available to the public by acts other than those of Candidate after receiving it; has been received lawfully and in good faith by Candidate from a third party who did not derive it from Franchisor or Candidate; or is shown by acceptable evidence to have been independently developed by Candidate.

2.2. Value. The Confidential Information has been developed by Franchisor and its affiliates by the investment of time, skill, effort and money and is widely recognized by the public and is of substantial value.

2.3. Proprietary. The Confidential Information is proprietary, confidential and constitutes a trade secret of Franchisor and its affiliates.

2.4. Maintain Confidentiality. Candidate will fully and strictly maintain the confidentiality of the Confidential Information, will exercise the highest degree of diligence in safeguarding the Confidential Information and will not disclose or reveal the Confidential Information to any person other than another person who is actively and directly participating in the acquisition of the franchise with Candidate, but only after first disclosing the identity of such person to Franchisor in writing and obtaining such person’s signature on a Non-Disclosure Agreement similar to this Agreement, unless covered by attorney-client privilege.

2.5. Reproduction and Use. Candidate will not directly or indirectly reproduce or copy any Confidential Information or any part thereof and will make no use of any Confidential Information for any

purpose whatsoever unless and until Candidate becomes a franchisee of Franchisor, and then only in accordance with the provisions of Candidate's Franchise Agreement.

2.6. No Prior Experience. Candidate specifically acknowledges and agrees that prior to the execution of this Agreement, Candidate had no experience, information or knowledge whatsoever about the Closet Factory's business and that Candidate's knowledge of the Closet Factory Confidential Information was obtained solely from Franchisor pursuant to this Agreement. In addition, Candidate specifically acknowledges that, pursuant to this Agreement, Candidate will receive valuable Closet Factory Confidential Information regarding the operational, sales, promotional, and marketing methods and techniques of Franchisor and the Closet Factory System, which are unique and proprietary to Franchisor, derive independent economic value from not being generally known to the public and are the subject of Franchisor's efforts and that are reasonable under the circumstances to maintain their secrecy.

3. GENERAL.

3.1. Injunction. Candidate recognizes the unique value and secondary meaning attached to the Confidential Information and the elements of the Closet Factory System and agrees that any noncompliance with the terms of this Agreement or any unauthorized or improper use of the Confidential Information will cause irreparable damage to Franchisor and its franchisees. Candidate therefore agrees that if Candidate should engage in any such unauthorized or improper use of the Confidential Information, Franchisor shall be entitled to both permanent and temporary injunctive relief from any court of competent jurisdiction without notice or the posting of any bond, in addition to any other remedies prescribed by law.

3.2. Heirs and Successors. This Agreement shall be binding upon and inure to the benefit of the parties, their heirs, successors and assigns.

3.3. Entire Agreement. This Agreement represents the entire understanding between the parties regarding the subject matter of this Agreement and supersedes all other negotiations, agreements, representations and covenants, oral or written. This Agreement may not be modified except by a written instrument signed by Franchisor and Candidate that expressly modifies this Agreement. The parties intend this Agreement to be the entire integration of all of their agreements on this subject of any nature regarding the subject matter of this Agreement. No other agreements, representations, promises, commitments or the like, of any nature, exist between the parties.

3.4. No Right to Use the Closet Factory System or the Closet Factory Marks. This Agreement is not a Franchise Agreement or a license of any sort, and does not grant Candidate any right to use or to franchise or license the use of, the Closet Factory System, the Closet Factory Marks or the Confidential Information, which right is expressly reserved by Franchisor.

3.5. Waiver. Failure by Franchisor to enforce any rights under this Agreement shall not be construed as a waiver of such rights. Any waiver, including a waiver of default, in any one instance shall not constitute a continuing waiver or a waiver in any other instance.

3.6. Validity. Any invalidity of any portion of this Agreement shall not affect the validity of the remaining portions and unless substantial performance of this Agreement is frustrated by any such invalidity, this Agreement shall continue in full force and effect.

3.7. Headings and Gender. The headings herein are for purposes of convenience only and shall not be used in construing the provisions hereof. As used herein, the male gender shall include the female and neuter genders, the singular shall include the plural and the plural, the singular.

3.8. Attorneys' Fees. If Franchisor becomes a party to any legal proceedings concerning this Agreement by reason of any act or omission of Candidate or its authorized representatives, Candidate shall be liable to Franchisor for the reasonable attorneys' fees and court costs incurred by Franchisor in the legal proceedings. If either party commences a legal proceeding against the other party arising out of or in connection with this Agreement, the prevailing party shall be entitled to have and recover from the other party its reasonable attorneys' fees and costs of suit.

3.9. Cumulative Remedies. Any specific right or remedy set forth in this Agreement, legal, equitable, or otherwise, shall not be exclusive, but shall be cumulative with all other rights or remedies set forth herein or allowed or allowable by law.

3.10. Notices. All notices or demands to be given under this Agreement shall be in writing and shall be served in person, by air courier delivery or by certified mail. Service shall be deemed conclusively made (i) at the time of service, if personally served; (ii) three (3) business days after delivery by the Party giving the notice, statement or demand if by air courier with a guaranteed tracking facility; and (iii) three (3) business days after placement in the United States mail by Certified Mail, Return Receipt Requested, with postage prepaid. Notices and demands shall be given to the respective Parties at the following addresses, unless and until a different address has been designated by written notice to the other Party:

Notices to Franchisor:

The Closet Factory Franchise Corporation
12800 South Broadway
Los Angeles, California 90061
Attention: John La Barbera

With a copy to (which shall not constitute notice):

Barry Kurtz, Esq.
Lewitt, Hackman, Shapiro, Marshall and Harlan
16633 Ventura Boulevard, 11th Floor
Encino, California 91436
Fax: (818) 981-4764

Notices to Candidate:

Attention: _____

Either party may change its address for the purpose of receiving notices, demands and other communications by a written notice given in the manner set forth above to the other party.

3.11. Venue. The parties agree that all disputes arising out of or relating to this Agreement shall be brought in the Superior Court of California, County of Los Angeles, or the United States District Court of the Central District of California. To the fullest extent that the parties may do so under applicable law, the parties waive the defense of inconvenient forum to the maintenance of an action in these Courts and agree not to commence any action of any kind except in these Courts.

3.12. Governing Law. This Agreement shall be interpreted and construed under the laws of California. In the event of any conflict of law, the law of California shall prevail, without regard to the application of California conflict of law rules. If, however, any provision of this Agreement would not be enforceable under the laws of California, and if the Franchised Business would be located outside of California and such provision would be enforceable under the laws of the state in which the Franchised Business would be located, then such provision shall be interpreted and construed under the laws of that state. Nothing in this Section 3.13 is intended by the parties to subject this Agreement to any franchise or similar law, rules, or regulation of any state to which it would not otherwise be subject.

3.13. Counterparts and Electronic Transmission; Electronic Signatures. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Copies of this Agreement with signatures that have been transmitted by email or by facsimile shall constitute and be deemed original copies of this Agreement for all purposes, provided that the copies are fully executed, dated and identical in form to the original hard copy version of this Agreement. In addition, this Agreement may be signed electronically by the Parties and electronic signatures appearing on this Agreement shall be deemed to be the same as handwritten signatures for the purposes of the validity, enforceability and admissibility of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement on the Effective Date.

FRANCHISOR:

CANDIDATE:

THE CLOSET FACTORY FRANCHISE
CORPORATION
A California corporation

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

EXHIBIT D

TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION
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**THE CLOSET FACTORY
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MANUAL AS OF 12/31/17
150 TOTAL PAGES**

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INTRODUCTION

- Site Selection
 - Size
 - Location
- Licensing/Permits
- Equipment & Supplies
 - Authorized Suppliers
- Mobile Units

INSURANCE

INITIAL TRAINING

- Customer Service Training
- Factory Training
- Designer Sales/Technical Training
- Designer In-Field Training
- Accounting
- Marketing/Advertising

STAFF RECRUITMENT/JOB DESCRIPTIONS

- Personnel Needs
 - The Position of Service Coordinator
 - Selection Criteria
 - Job Description
 - Classified Recruitment Advertising
 - The Position of Design Consultant
 - Selection Criteria
 - Job Description
 - Classified Recruitment Advertising
 - The Position of Installer
 - Selection Criteria
 - Job Description
 - Classified Recruitment Advertising
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 - Selection Criteria
 - Job Description
 - Classified Recruitment Advertising

DEVELOPMENT OF AN ADVERTISING PLAN

COMPETITOR ANALYSIS

- Sizing Up The Competition
 - What they do to pursue the sale
 - What material do they offer
 - Their Facility/Equipment
 - Their Personnel

MANAGEMENT OBJECTIVES — 14 pages

INTRODUCTION

- Planning
- Organizing
- Directing
- Controlling

YOUR JOB AS TRAINER

- Why Training is Important

SALES MANAGEMENT

- Lead Management
- Weekly Sales Meetings
- Motivation
 - Compensation
 - Sales Contests

OFFICE PROCEDURES — 31 pages

INTRODUCTION

- Getting the Appointment

COMMUNICATIONS CENTER

- Handling the Telephone
- Be Involved!
- Tips on Booking the Lead
 - The Lead Information Sheet
 - Lead Scheduling Sheet
 - Conveying Leads to the Designer
 - Designer Lead Count
 - Daily Source Count
 - Designer Status Report
 - Sales Board
 - Sales Activity Sheet
- Installation Process
 - Installation Schedule
 - Paperwork
 - Cash Log
 - Installation Board
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- Chart of Accounts
- Cash Receipts Journal
- Cash Disbursements Journal

- Payroll Procedures
 - Salaried Employees
 - Hourly Employees
 - Design Consultants
- Reports to Headquarters
 - Franchise Summary Report
 - Cash Analysis
- Establishing Credit Card Merchant Status
- Easy Payment Plan
- Payments By Check

PURCHASING AND RECEIVING — 19 pages

OVERVIEW

- Authorized National Suppliers
- Local Suppliers
- Opening Promotional Supplies
- Purchasing from Headquarters
- Receiving Goods

ITEMS OBTAINED FROM AUTHORIZED NATIONAL SUPPLIERS

- Edgebanding
- Screws
- E.B. Bradley Supplies
- Tube Hangers
- Boring Bits
- Hafele Supplies
- Baskets
- Murphy Rodgers

SUGGESTED PURCHASE ITEMS TO BE OBTAINED LOCALLY

- Basic Tool Requirements
- Van Equipment
- Basic Tools - Plant
- Hardware
- Wood Supplies
- Other Supplies
- Office Items

SOURCING FOR OTHER REQUIRED INVENTORY ITEMS

- Brass Parts
- Drawer Lining
- Hooks
- "L" Brackets
- Rosettes
- Toggle Bolts

EQUIPMENT INSTALLATION AND MAINTENANCE — 5 pages

INTRODUCTION

- Power Supply
- Air Lines Installation
- Equipment Arrival Preparation
- How to Prevent Chipping When Operating Your Table Saw

Periodic Machine Maintenance
Sliding Table Saw
Edgebander
Boring Machine

SALES AND DESIGN TRAINING — 50 pages

INTRODUCTION

Preparing For Your Class
Starting Out
Program Fundamentals
 Presenting the Sales Brochure
 Closet Factory Expectations
 How We Take Leads
 How Our Designers Get and Handle Leads
 What Is A Closet?
Basic Closet Design
 Closet Types
 Closet Door Types
 Obstructions
 European Construction (32 mm system)
 Competitive Advantages
 Panels
 Shelves
 Drawers
 Doors
 Baskets
 Accessories
 Edgebanding
Basic Design Guidelines
Cut-To-Fit
Design Errors
Material
Design Grids
Explaining the "top view"
Basic Designing Exercise
 Wardrobe Closet
 Walk-In Closets
 L-Shaped Closets
 Garages
 Entertainment Systems
 Desk/Workstations
Designing "Lite"
In-Field Review
Selling in a Competitive Situation
Presenting the Design
Presenting the Price
Building and Closing the Order
Tools of the Trade
Keeping Your Paperwork Straight
What Have We Learned So Far?
More on How to Sell
 Buying Signals
Handling Objections

Discounting Your Price
The Importance of Prospecting
Referral/Repeat Business
Questions and Answers

HOME SHOW PROCEDURES — 10 pages

INTRODUCTION

Selection
Designing Your Booth
Implementation
Know Your Competitors
 California Closets
 Closet Gallery
 Closets By Design
 Crest Cabinets
 Classic Closets
Supplies
Working the Booth
Staffing Your Booth
Setting the Appointment
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SAFETY PROCEDURES — 17 pages

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Guidelines for Office Safety
Responsibilities
 Management Responsibility
 Employee Responsibilities
Progressive Disciplinary Policy
Accident Investigation
Inspection Guidelines
Safety Training
 Safety Orientation Program
 Job Instruction Training
 Supervisors Safety Training
Communication
Hazard Recognition and Control
 Clerical
 Sales
 Machines and Equipment
Safety Suggestions
Receipt and Verification
 Off-The-Job Safety

GUIDELINES FOR SHOP AND INSTALLATION SAFETY

Accident Reporting
Regarding Fires
Safety and Health Policies
Building
Electrical Equipment
Machinery - Equipment Operations
Industrial Power and Trucks

Lifting and Carrying
Piling and Stacking
Receipt and Verification of Safety and Health Policies
Off-The-Job Safety

EXHIBIT E

TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION

LIST OF STATE FRANCHISE ADMINISTRATORS AND AGENTS FOR SERVICE OF PROCESS

LIST OF STATE ADMINISTRATORS AND STATE AGENTS FOR SERVICE OF PROCESS

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
CALIFORNIA	Department of Financial Protection and Innovation 320 West 4 th Street, Suite 750 Los Angeles, California 90013 (213) 576-7500 (866) 275-2677	California, Commissioner of Financial Protection and Innovation 320 West 4 th Street, Suite 750 Los Angeles, California 90013 (213) 576-7500 (866) 275-2677
HAWAII	Business Registration Division Department of Commerce and Consumer Affairs 335 Merchant Street Room 203 Honolulu, Hawaii 96813 (808) 586-2722	Commissioner of Securities, Department of Commerce & Consumer Affairs 335 Merchant Street Room 203 Honolulu, Hawaii 96813 (808) 586-2722
ILLINOIS	Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465	Franchise Bureau Office of the Attorney General 500 South Second Street Springfield, Illinois 62706 (217) 782-4465
INDIANA	Indiana Secretary of State Securities Division 302 West Washington Street, Room E-111 Indianapolis, Indiana 46204 (317) 232-6681	Indiana Secretary of State 201 State House 200 West Washington Street Indianapolis, Indiana 46204 (317) 232-6531
MARYLAND	Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360	Maryland Securities Commissioner Office of the Attorney General Securities Division 200 St. Paul Place Baltimore, Maryland 21202-2021 (410) 576-6360
MICHIGAN	Michigan Department of Attorney General Consumer Protection Division Attn: Franchise Section 525 West Ottawa G. Mennen Williams Building, 1 st Floor Lansing, Michigan 48933 (517) 335-7567	Michigan Department of Commerce Corporations and Securities Bureau P.O. Box 30054 6546 Mercantile Way Lansing, Michigan 48909 (517) 241-6345
MINNESOTA	Minnesota Department of Commerce 85 7 th Place East, Suite 280 St. Paul, Minnesota 55101-2198 (651) 539-1600	Minnesota Commissioner of Commerce Department of Commerce 85 7 th Place East, Suite 280 St. Paul, Minnesota 55101-2198 (651) 539-1600
NEBRASKA	Nebraska Department of Banking and Finance Bureau of Securities/Financial Institutions Division 1526 K Street, Suite 300 Lincoln, Nebraska 68508-2723 (402) 471-2171	Nebraska Department of Banking and Finance Bureau off Securities/Financial Institutions Division 1526 K Street, Suite 300 Lincoln, Nebraska 68508-2723 (402) 471-2171

STATE	STATE ADMINISTRATOR	AGENT FOR SERVICE OF PROCESS
NEW YORK	NYS Department of Law Investor Protection Bureau Franchise Section 28 Liberty Street, 21st Floor New York, New York 10005-1495 (212) 416-8236 (Phone) (212) 416-6042 (Fax)	New York Department of State One Commerce Plaza 99 Washington Avenue, 6 th Floor Albany, New York 12231-0001 (518) 473-2492
NORTH DAKOTA	North Dakota Securities Department 600 East Boulevard Avenue State Capitol Fifth Floor, Department 414 Bismarck, North Dakota 58505-0510 (701) 328-4712	North Dakota Securities Commissioner 600 East Boulevard Avenue State Capitol Fifth Floor, Department 414 Bismarck, North Dakota 58505-0510 (701) 328-4712
OREGON	Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, Oregon 97310 (503) 378-4387	Department of Insurance and Finance Corporate Securities Section Labor and Industries Building Salem, Oregon 97310 (503) 378-4387
RHODE ISLAND	Securities Division State of Rhode Island Department of Business Regulation, Bldg. 69, First Floor John O. Pastore Center 1511 Pontiac Avenue, Cranston, Rhode Island 02920 (401) 462-9582	Director, Securities Division Department of Business Regulation Bldg. 69, First Floor John O. Pastore Center 1511 Pontiac Avenue, Cranston, Rhode Island 02920 (401) 462-9582
SOUTH DAKOTA	Department of Labor and Regulation Division of Insurance Securities Regulation 124 South Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563	Director, Department of Labor and Regulation Division of Insurance Securities Regulation 124 South Euclid, Suite 104 Pierre, South Dakota 57501 (605) 773-3563
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, First Floor Richmond, Virginia 23219 (804) 371-9051	Clerk of the State Corporation Commission 1300 East Main Street, First Floor Richmond, Virginia 23219 (804) 371-9733
WASHINGTON	Securities Division Department of Financial Institutions P.O. Box 41200 Olympia, Washington 98504-1200 (360) 902-8760	Director, Department of Financial Institutions Securities Division 150 Israel Road S.W. Tumwater, Washington 98501 (360) 902-8760
WISCONSIN	Franchise Registration Division of Securities Wisconsin Department of Financial Institutions 201 West Washington Avenue, Suite 300 Madison, Wisconsin 53703 (608) 266-1064	Securities and Franchise Registration Wisconsin Securities Commission 201 West Washington Avenue, Suite 300 Madison, Wisconsin 53703 (608) 266-1064

EXHIBIT F

TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION

STATE ADDENDA

CALIFORNIA ADDENDUM TO
THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE DISCLOSURE DOCUMENT

The Disclosure Document is amended as follows:

THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF CALIFORNIA. SUCH REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION NOR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.

California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

Neither The Closet Factory Franchise Corporation, nor any predecessor, nor any person in Item 2 of the Disclosure Document is subject to any currently effective order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise or to a federal, state or Canadian franchise, securities, antitrust, trade regulation, or trade practice law.

The Franchise Agreement requires binding arbitration. The arbitration will be conducted exclusively at a neutral location in the county in which our then-current headquarters is located, provided that if any court determines that this provision is unenforceable for any reason, arbitration will be conducted at a location near your franchise location. You and we will generally bear each of our own costs in any dispute, but the arbitrator can assess costs against a losing party. Prospective franchisees are encouraged to consult private legal counsel to determine the applicability of California and federal laws (such as Business and Professions Code Section 20040.5, Code of Civil Procedure Section 1281, and the Federal Arbitration Act) to any provisions of a Franchise Agreement restricting venue to a forum outside the State of California.

Section 31125 of the California Corporations Code requires us to give you a disclosure document approved by the Department of Financial Protection and Innovation prior to a solicitation of a proposed material modification of an existing franchise.

The California Franchise Investment Law requires that a copy of all proposed agreements relating to the sale of the franchise be delivered together with the Franchise Disclosure Document 14 days prior to execution of any agreement.

You must sign a general release if you renew or transfer your franchise. California Corporations Code §31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code §§31000 through 31516). Business and Professions Code §20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code §§ 20034 through 20043).

The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under federal bankruptcy law (11 U.S.C.A. Sec. 101 et seq.).

You must satisfy the requirements for a California contractor's license and remain in compliance with these requirements.

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

No statement, questionnaire, or acknowledgment signed by or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

California's Franchise Investment Law (Corporations Code sections 31512 and 31512.1) provides that any provision of a franchise agreement or related document requiring the franchisee to waive specific provisions of the law is contrary to public policy and is void and unenforceable. The law also prohibits a franchisor from disclaiming or denying (i) representations it, its employees, or its agents make to you, (ii) your ability to rely on any representations it makes to you, or (iii) any violations of the law.

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION AT WWW.DFPI.CA.GOV ([HTTP://WWW.DFPI.CA.GOV](http://WWW.DFPI.CA.GOV)).

CALIFORNIA ADDENDUM
TO THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE AGREEMENT

THIS ADDENDUM TO FRANCHISE AGREEMENT (this "Addendum") dated _____, is intended to be a part of, and by this reference is incorporated into that certain Franchise Agreement (the "Franchise Agreement") dated _____, by and between THE CLOSET FACTORY FRANCHISE CORPORATION, a California corporation, as franchisor ("Franchisor"), and _____, as franchisee ("Franchisee"). Where and to the extent that any of the provisions of this Addendum are contrary to, in conflict with or inconsistent with any provision contained in the Franchise Agreement, the provisions contained in this Addendum shall control. Defined terms contained in the Franchise Agreement shall have the identical meanings in this Addendum.

1. Section 10.3 of the Franchise Agreement is amended to include the following at the end of Subsection 10.3(A):

Franchisee acknowledges, agrees and understands that Franchisee is required to satisfy the requirements for a Contractor's License in California and to remain in compliance with such requirements throughout the term of the Franchise Agreement.

2. Sections 21(D), 21(E), and (F) of the Franchise Agreement are deleted in their entirety.

3. For the purposes of Cal. Bus. & Prof. Code Section 20022, Franchisor and Franchisee agree that:

- a. They will use the declining-balance depreciation method to calculate the value of Franchisee's assets (inventory, supplies, equipment, fixtures, and furnishings) for the purposes of a purchase by us under Section 20022. The purchase price by us for these assets will not include the cost of removal and transportation of those assets, which will be your responsibility.
- b. For the purposes of Section 20022, you are not able to provide to us with "clear title and possession" to your Assets if those Assets are subject to liens or encumbrances including: (i) purchase money security interests; (ii) blanket security interests; (iii) rights of first refusal; (iv) liens by franchisee's landlord; or (v) tax liens.
- c. For the purposes of Section 20022(h), our right of offset will include the following amounts owed by you to us or our Affiliates: (i) Royalty Fees; (ii) Marketing Fund Fees; (iii) Transfer Fees; and (iv) any other type of fee owed by you to us or our Affiliates.

4. For the purposes of Cal. Bus. & Prof. Code Section 20035, Franchisor and Franchisee agree that:

- a. "Fair market value of the franchise assets" means the value of your Assets, valued according to the declining-balance method of depreciation. The purchase price by us for the Assets will not include the cost of removal and transportation of those assets, which will be your responsibility.
- b. "Fair market value of the franchised business" means the "fair market value of the franchise assets" as defined above, plus goodwill. The parties agree that the value of goodwill is the amount of Royalty Fees paid by you to us within the twelve (12) month period immediately before our termination or failure to renew if we are in violation of the California Franchise Relations Act.

5. No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision

supersedes any other term of any document executed in connection with the franchise.

6. California's Franchise Investment Law (Corporations Code sections 31512 and 31512.1) provides that any provision of a franchise agreement or related document requiring the franchisee to waive specific provisions of the law is contrary to public policy and is void and unenforceable. The law also prohibits a franchisor from disclaiming or denying (i) representations it, its employees, or its agents make to you, (ii) your ability to rely on any representations it makes to you, or (iii) any violations of the law.

7. For the purposes of Cal. Code Regs. Tit. 10, § 310.114.1, Franchisor and Franchisee agree that:

- a. The California Franchise Investment Law requires a copy of all proposed agreements relating to the sale of the franchise to be delivered together with the Disclosure Document 14 days prior to execution of any agreement.
- b. California Business and Professions Code Sections 20000 through 20043 provide rights to the franchisee concerning termination, transfer or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.
- c. The Franchise Agreement provides for termination upon bankruptcy. This provision may not be enforceable under Federal Bankruptcy Law (11 U.S.C.A. sec. 101 et. Seq.).
- d. The Franchise Agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.
- f. The Franchise Agreement requires the parties to resolve all disputes through litigation in the U.S. District for the Central District of California or any state court in Los Angeles, California, with the costs being borne by the losing party.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

FRANCHISOR:

FRANCHISEE:

THE CLOSET FACTORY FRANCHISE
CORPORATION
A California corporation

_____,
A _____

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

HAWAII
ADDENDUM TO DISCLOSURE DOCUMENT

The Disclosure Document is amended as follows:

1. THESE FRANCHISES WILL BE/HAVE BEEN FILED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF HAWAII. FILING DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE DIRECTOR OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS OR A FINDING BY THE DIRECTOR OF THE DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING.
2. THE FRANCHISE INVESTMENT LAW MAKES IT UNLAWFUL TO OFFER OR SELL ANY FRANCHISE IN THIS STATE WITHOUT FIRST PROVIDING TO THE PROSPECTIVE FRANCHISEE, OR SUBFRANCHISOR, AT LEAST SEVEN DAYS PRIOR TO THE EXECUTION BY THE PROSPECTIVE FRANCHISEE OF ANY BINDING FRANCHISE OR OTHER AGREEMENT, OR AT LEAST SEVEN DAYS PRIOR TO THE PAYMENT OF ANY CONSIDERATION BY THE FRANCHISEE, OR SUBFRANCHISOR, WHICHEVER OCCURS FIRST, A COPY OF THE DISCLOSURE DOCUMENT, TOGETHER WITH A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE.
3. THIS DISCLOSURE DOCUMENT CONTAINS A SUMMARY ONLY OF CERTAIN MATERIAL PROVISIONS OF THE FRANCHISE AGREEMENT. THE CONTRACT OR AGREEMENT SHOULD BE REFERRED TO FOR A STATEMENT OF ALL RIGHTS, CONDITIONS, RESTRICTIONS AND OBLIGATIONS OF BOTH THE FRANCHISOR AND THE FRANCHISEE.
4. NO STATEMENT, QUESTIONNAIRE, OR ACKNOWLEDGEMENT SIGNED OR AGREED TO BY A FRANCHISEE IN CONNECTION WITH THE COMMENCEMENT OF THE FRANCHISE RELATIONSHIP SHALL HAVE THE EFFECT OF (I) WAIVING ANY CLAIMS UNDER ANY APPLICABLE STATE FRANCHISE LAW, INCLUDING FRAUD IN THE INDUCEMENT, OR (II) DISCLAIMING RELIANCE ON ANY STATEMENT MADE BY ANY FRANCHISOR FRANCHISE SELLER, OR OTHER PERSON ACTING ON BEHALF OF THE FRANCHISOR. THIS PROVISION SUPERSEDES ANY OTHER TERM OF ANY DOCUMENT EXECUTED IN CONNECTION WITH THE FRANCHISE.

ILLINOIS ADDENDUM
TO THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE DISCLOSURE DOCUMENT

By reading this disclosure document, you are not agreeing to, acknowledging, or making any representations whatsoever to the Franchisor and its affiliates.

In recognition of the requirements of the Illinois Franchise Disclosure Act of 1987, as amended (the "Act"), the Disclosure Document is amended as follows:

1. Illinois Law governs the agreements between the parties to this franchise.
2. Section 4 of the Illinois Franchise Disclosure Act states that any provision in a franchise agreement that designates jurisdiction and venue in a forum outside of the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.
3. Franchisees rights upon termination and non-renewal of the Franchise Agreement are set forth in Sections 19 and 20 of the Illinois Franchise Disclosure Act.
4. Section 41 of the Illinois Franchise Disclosure Protection Act provides that any condition, stipulation or provision purporting to bind any person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.
5. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

ILLINOIS
ADDENDUM TO FRANCHISE AGREEMENT

THIS ADDENDUM TO FRANCHISE AGREEMENT (this "Addendum") dated _____, is intended to be a part of, and by this reference is incorporated into that certain Franchise Agreement (the "Franchise Agreement") dated _____, by and between THE CLOSET FACTORY FRANCHISE CORPORATION, a California corporation, as franchisor ("Franchisor"), and _____, as franchisee ("Franchisee"). Defined terms contained in the Franchise Agreement shall have the same meanings in this Addendum.

1. Illinois law governs the agreements between the parties to the Franchise Agreement.
2. Section 4 of the Illinois Franchise Disclosure Act provides that any provision in the Franchise Agreement that designates jurisdiction or venue outside the State of Illinois is void. However, a Franchise Agreement may provide for arbitration outside of Illinois.
3. Section 41 of the Illinois Franchise Disclosure Protection Act provides that any condition, stipulation or provision that purports to bind a person acquiring any franchise to waive compliance with the Illinois Franchise Disclosure Act or any other law of Illinois is void.
4. Franchisee's rights upon termination and non-renewal of the Franchise Agreement are set forth in sections 19 and 20 of the Illinois Franchise Disclosure Act.
5. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

FRANCHISOR:

FRANCHISEE:

THE CLOSET FACTORY FRANCHISE
CORPORATION
A California corporation

_____,
A _____

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

INDIANA ADDENDUM
TO THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE DISCLOSURE DOCUMENT

For franchisors and franchisees subject to the Indiana Franchise Disclosure Law and the Indiana Deceptive Franchise Practices Law, the following information supersedes or supplements, as the case may be, the corresponding disclosures in the main body of the text of The Closet Factory Franchise Corporation's Franchise Disclosure Document.

Item 8. Item 8 of the Disclosure Document is amended to include the following disclosure:

The Indiana Deceptive Franchise Practices Law, Ind. Code §23-2-2.7-1(4) prohibits provisions in a Franchise Agreement subject to the Law which allow the franchisor to obtain money, goods, services, or any other benefit from any other person with whom the franchisee does business, on account of, or in relation to, the transaction between the franchisee and the other person, other than for compensation for services rendered by the franchisor, unless the benefit is promptly accounted for, and transmitted to the franchisee. To the extent that any provision of the Franchise Agreement conflicts with Indiana Law, Indiana Law will control.

The Indiana Deceptive Franchise Practices Law, Ind. Code §23-2-2.7-2(6) makes it unlawful for any franchisor to obtain money, goods, services, or any other benefit from any other person with whom the franchisee does business, on account of, or in relation to, the transaction between the franchisee and the other person, other than compensation for services rendered by the franchisor, unless the benefit is promptly accounted for, and transmitted to the franchisee. To the extent that any of The Closet Factory Franchise Corporation's business practices conflicts with Indiana Law, Indiana Law will control.

Item 17. Item 17 of the Disclosure Document is amended to include the following disclosure:

To the extent you are required to execute a release in favor of The Closet Factory Franchise Corporation, such release shall exclude liabilities arising under the Indiana Deceptive Franchise Practices Law, Ind. Code §23-2-2.7-1.

Ind. Code §23-2-2.7-2(3) makes it unlawful for a franchisor to deny the surviving spouse, heirs, or estate of a deceased franchisee the opportunity to participate in the ownership of the franchise under a valid Franchise Agreement for a reasonable time after the death of the franchisee, provided that the surviving spouse, heirs or estate maintains all standards and obligations of the franchise. To the extent that the Franchise Agreement requires a surviving spouse, heirs or an estate representative to assume liability under the Franchise Agreement and to complete training, the Franchise Agreement has been amended in accordance with Indiana Law to provide that all such conditions must be met within 6 months of the franchisee's date of death.

Ind. Code §23-2-2.7-1(10) prohibits any provision in the Agreement which limits litigation brought for breach of the Agreement in any manner whatsoever. To the extent that any provision of the Agreement conflicts with Indiana law, Indiana law will control.

The choice of law provision contained in the Franchise Agreement should not be considered a waiver of any right conferred upon you by the provisions of the Indiana Franchise Disclosure Law or the Indiana Deceptive Franchise Practices Law with respect to the offer and sale of a franchise and the franchise relationship. The Franchise Agreement shall be governed by the Indiana Franchise Disclosure Law IC §23-2-2.5 and the Indiana Deceptive Franchise Practices Law IC §23-2-2.7, under Ind. Code §23-2-2.7.

Indiana franchisees are allowed access to Indiana courts. Any provision in the Franchise Agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue in a forum outside of Indiana with respect to any matter governed by the Indiana Deceptive Franchise Practices Law and Indiana Franchise Disclosure Law is void.

The post term covenant not to compete is limited to your non-exclusive area under the Franchise Agreement pursuant to Ind. Code §23-2-2.7-1(9).

No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

MARYLAND ADDENDUM
TO THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE DISCLOSURE DOCUMENT AND FRANCHISE AGREEMENT

1. Items 5 and 17 of the Disclosure Document, and Sections 9.1, 14.3, 14.7, 14.8, 15.3 of the Franchise Agreement, shall be amended to include that any general release required as a condition of renewal, sale, and/or assignment/transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.

2. Item 17 of the Disclosure Document and Section 19.2 of the Franchise Agreement are amended to state that any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within 3 years after the grant of the franchise.

3. The following sentence is added to the end of Section 21 of the Franchise Agreement.

Representations and acknowledgments required to be made by franchisees are not intended to nor shall they act as a release, estoppel, or waiver of liability of the franchisor incurred under the Maryland Franchise Registration and Disclosure Law.

4. Item 17 of the Disclosure Document is amended to include the following:

A franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

5. Section 19.3 of the Franchise Agreement is amended to include the following:

A franchisee may bring a lawsuit in Maryland for claims arising under the Maryland Franchise Registration and Disclosure Law.

No statement, questionnaire, or acknowledgment signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor, franchise seller, or other person acting on behalf of the franchisor. This provision supersedes any other term of any document executed in connection with the franchise. Any questionnaire and specific Acknowledgments shall not apply to prospective franchisees who are Maryland residents or who seek to purchase a franchise located in Maryland.

FRANCHISOR:

FRANCHISEE:

THE CLOSET FACTORY FRANCHISE
CORPORATION
A California corporation

_____,
A _____

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

MINNESOTA ADDENDUM TO
THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE DISCLOSURE DOCUMENT AND AGREEMENT

1. Minnesota Statutes §80C.21 and Minnesota Rule 2860.4400J prohibit us from requiring litigation to be conducted outside Minnesota. In addition, nothing in the Disclosure Document or Agreement can abrogate or reduce any of your rights as provided for in Minnesota Statutes, Chapter 80C, or your rights to any procedure, forum, or remedies provided for by the laws of this jurisdiction.

2. With respect to franchises governed by Minnesota law, the franchisor will comply with Minnesota Statutes Section 80C.14, Subdivisions 3, 4 and 5 which require, except in certain specified cases, that a franchisee be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the Franchise Agreement.

3. Item 13 of the Franchise Disclosure Document and Section 6 of the Franchise Agreement are modified with respect to Minnesota Franchisees as follows: The Minnesota Department of Commerce requires that the Franchisor indemnify Minnesota Franchisees against liability to third parties resulting from claims by third parties that the Franchisee's use of the Franchisor's trademarks or service marks infringes trademark rights of some third party. The Franchisor does not indemnify against the consequences of the Franchisee's use of the Franchisor's trademark except in accordance with the requirements of the franchise (and to the extent validly required as a condition to registration), and, as a condition to indemnification, the Franchisee must provide notice to the Franchisor of any such claim within 10 business days and tender the defense of claim to the Franchisor. If the Franchisor accepts the tender of defense, the Franchisor has the right to manage the defense of the claim including the right to compromise, settle or otherwise resolve the claim, and to determine whether to appeal a final determination of the claim.

4. Minn. Rule 2860.4400J prohibits a franchisee from waiving its rights to a jury trial or waiving its rights to any procedure, forum or remedies provided for by the laws of the jurisdiction, or consenting to liquidated damages, termination penalties or judgment notes. To the extent the Franchise Agreement is inconsistent with this Rule, to the extent applicable, the Rule will control.

5. Minn. Rule 2860.4400J prohibits us from requiring a franchisee to consent to a franchisor obtaining injunctive relief. We may seek injunctive relief. In addition, a court will determine if a bond is required.

6. Any releases required as a condition of renewal and/or assignment/transfer will not apply to claims that may arise under the Minnesota Franchises Law.

7. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

[Signature Page to Follow]

FRANCHISOR:

THE CLOSET FACTORY FRANCHISE
CORPORATION
A California corporation

By: _____

Name: _____

Its: _____

FRANCHISEE:

_____,
A _____

By: _____

Name: _____

Its: _____

NORTH DAKOTA
ADDENDUM TO DISCLOSURE DOCUMENT

In North Dakota, the Disclosure Document is amended as follows to conform to North Dakota law:

Item 17 (c) is revised to omit any requirement that a general release be signed as a condition of renewal.

Item 17 (r) is amended to add the following: "To the extent that covenants not to compete apply to periods after the term of the franchise contrary to Section 9-08-06, N.D.C.C, they are generally considered unenforceable in the State of North Dakota."

Item 17 (v) (venue) of the Disclosure Document is amended as follows: "Any provision in the Franchise Agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue in a forum outside of North Dakota is void with respect to any cause of action which is otherwise enforceable in North Dakota.

Item 17 (w) (governing law) is amended as follows: "Any provision in the Franchise Agreement requiring that the Franchise Agreement be construed according to the laws of a state other than North Dakota are unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

NORTH DAKOTA
ADDENDUM TO FRANCHISE AGREEMENT

15.3, "Conditions to the Award of a Successor Franchise." of the Franchise Agreement is revised to omit any requirement that a general release be signed as a condition of renewal.

Section 14.3, "Conditions for Approval of Any Transfer" of the Franchise Agreement is amended to add the following:

"Covenants not to compete such as those mentioned above are generally considered unenforceable in the State of North Dakota".

Section 19.3, "Exclusive Jurisdiction and Venue" of the Franchise Agreement is amended as follows:

"Any provision in the Franchise Agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue in a forum outside of North Dakota is void with respect to any cause of action which is otherwise enforceable in North Dakota.

Section 19.4, "Terms Applicable to All Proceedings, Waiver of Trial by Jury, Class Actions" of the Franchise Agreement is amended as follows:

"In North Dakota, provisions of the Franchise Agreement which unreasonably limit the statute of limitations or remedies under the North Dakota Franchise Investment Law, such as the right to jury trial, may not be enforceable."

Section 19.12, "Choice of Laws" of the Franchise Agreement is amended as follows:

"Any provision in the Franchise Agreement requiring that the Franchise Agreement be construed according to the laws of a state other than North Dakota are unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

Section 19.5, "Waiver of Punitive Damages" of the Franchise Agreement is amended as follows:

"In the State of North Dakota, the statute of limitations under North Dakota Law will apply".

"Any provision in the Franchise Agreement requiring a franchisee to consent to a waiver of exemplary and punitive damages is unfair, unjust or inequitable within the intent of Section 51-19-09 of the North Dakota Franchise Investment Law.

Provisions of the Franchise Agreement requiring a franchisee to consent to liquidated damages or termination penalties, requiring a franchisee to consent to a limitation of claims or requiring a franchisee to pay all of Franchisor's costs and expenses incurred in enforcing the agreement may not be enforceable under North Dakota law.

No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

(Signature Page Follows)

FRANCHISOR:

THE CLOSET FACTORY FRANCHISE
CORPORATION,
A California corporation

By: _____

Name: _____

Its: _____

FRANCHISEE:

_____,
A _____

By: _____

Name: _____

Its: _____

RHODE ISLAND ADDENDUM TO
THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE DISCLOSURE DOCUMENT

RHODE ISLAND
ADDENDUM TO DISCLOSURE DOCUMENT

The Disclosure Document is amended as follows:

1. The following language is added to Item 17(v) of the Disclosure Document, titled “Choice of Forum”:

“A provision of a franchise agreement restricting jurisdiction or venue to a forum outside Rhode Island or requiring the application of the laws of any state other than Rhode Island is void with respect to a claim otherwise enforceable under the Rhode Island Franchise Investment Act.”

2. The following language is added to Item 17(w) of the Disclosure Document, titled “Choice of Law”:

“A provision of a franchise agreement restricting jurisdiction or venue to a forum outside Rhode Island or requiring the application of the laws of any state other than Rhode Island is void with respect to a claim otherwise enforceable under the Rhode Island Franchise Investment Act.”

3. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

RHODE ISLAND
ADDENDUM TO FRANCHISE AGREEMENT

THIS ADDENDUM TO FRANCHISE AGREEMENT (this "Addendum") dated _____, is intended to be a part of, and by this reference is incorporated into that certain Franchise Agreement (the "Franchise Agreement") dated _____, by and between THE CLOSET FACTORY FRANCHISE CORPORATION, a California corporation, as franchisor ("Franchisor") and _____, as franchisee ("Franchisee"). Where and to the extent that any of the provisions of this Addendum are contrary to, in conflict with or inconsistent with any provision contained in the Franchise Agreement, the provisions contained in this Addendum shall control. Defined terms contained in the Franchise Agreement shall have the same meanings in this Addendum.

In recognition of the requirements of the Rhode Island Franchise Investment Act (Section 19-28.1-14), the parties to the Franchise Agreement agree as follows:

1. Any provision of the Franchise Agreement restricting jurisdiction or venue to a forum outside Rhode Island or requiring the application of the laws of any state other than Rhode Island is void with respect to a claim otherwise enforceable under the Rhode Island Franchise Investment Act.
2. In the event of any conflict between the terms of this Addendum and the terms of the Franchise Agreement, the terms of this Addendum shall prevail.
3. Each provision of this Addendum shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Rhode Island Franchise Investment Act are met independently without reference to this Addendum.
4. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

FRANCHISOR:

FRANCHISEE:

THE CLOSET FACTORY FRANCHISE
CORPORATION
A California corporation

_____,
A _____

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

SOUTH DAKOTA
ADDENDUM TO DISCLOSURE DOCUMENT

The Franchise Agreement includes a covenant not to compete after termination of the Franchise Agreement. Covenants not to compete upon termination or expiration of the Franchise Agreement are generally unenforceable in the State of South Dakota, except in certain instances provided by law. The Franchise Agreement provides for arbitration in a state other than South Dakota. Under South Dakota law, arbitration must be conducted at a mutually agreed upon site in accordance with § 11 of the Commercial Arbitration Rules of the American Arbitration Association.

The Franchise Agreement designates the law of a state other than South Dakota as the governing law, except that the arbitration clause is to be construed under the Federal Arbitration Act and trademark issues are to be construed under the Lanham Act. Franchise registration, employment, covenants not to compete, and other matters of local concern will be governed by the laws of the State of South Dakota, but contractual and all other matters will be subject to application, construction, enforcement, and interpretation under the governing law specified by the Franchise Agreement.

Under South Dakota law, any provision in a Franchise Agreement which designates jurisdiction or venue or requires the franchisee to agree to jurisdiction or venue outside South Dakota is void with respect to any cause of action which is governed by the law of South Dakota.

Under South Dakota law, termination provisions covering breach of the Franchise Agreement, failure to meet performance and quality standards, and failure to make management service fee payments contained in the Disclosure Document and Franchise Agreement must afford a franchisee thirty (30) days written notice with an opportunity to cure the default prior to termination. Under SDL 37-5B-21, any condition, stipulation or provision purporting to waive compliance with any provision of this chapter or any rule or order under it is void.

Any acknowledgment, provision, disclaimer or integration clause or a provision having a similar effect in a Franchise Agreement does not negate or act to remove from judicial review any statement, misrepresentation or action that would violate the South Dakota franchise law or a rule or order under the South Dakota franchise law.

No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

VIRGINIA ADDENDUM TO
THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE DISCLOSURE DOCUMENT

In recognition of the restrictions contained in Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for The Closet Factory Franchise Corporation for use in the Commonwealth of Virginia shall be amended as follows:

Pursuant to Section 13.1-564 of the Virginia Retail Franchising Act, it is unlawful for a franchisor to cancel a franchise without reasonable cause. If any ground for default or termination stated in the Franchise Agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

VIRGINIA
ADDENDUM TO FRANCHISE AGREEMENT

THIS ADDENDUM TO FRANCHISE AGREEMENT (this "Addendum") dated _____, is intended to be a part of, and by this reference is incorporated into that certain Franchise Agreement (the "Franchise Agreement") dated _____, by and between THE CLOSET FACTORY FRANCHISE CORPORATION, a California corporation, as franchisor ("Franchisor") and _____, as franchisee ("Franchisee"). Where and to the extent that any of the provisions of this Addendum are contrary to, in conflict with or inconsistent with any provision contained in the Franchise Agreement, the provisions contained in this Addendum shall control. Defined terms contained in the Franchise Agreement shall have the same meanings in this Addendum.

The undersigned hereby acknowledge and agree that:

1. Any provisions in the Franchise Agreement which allow for termination of the Franchise Agreement without cause may not be enforceable under Section 13.1-564 of the Virginia Retail Franchising Act.
2. In the event of any conflict between the terms of this Addendum and the terms of the Franchise Agreement, the terms of this Addendum shall prevail.
3. Each provision of this Addendum shall be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Virginia Retail Franchising Act are met independently without reference to this Addendum.
4. No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

IN WITNESS WHEREOF, each of the undersigned hereby acknowledges having read this Addendum, and understands and consents to be bound by all of its terms.

FRANCHISOR:

FRANCHISEE:

THE CLOSET FACTORY FRANCHISE
CORPORATION,
A California corporation

_____,
A _____

By: _____
Name: _____
Its: _____

By: _____
Name: _____
Its: _____

WISCONSIN ADDENDUM TO
THE CLOSET FACTORY FRANCHISE CORPORATION
FRANCHISE DISCLOSURE DOCUMENT AND AGREEMENT

In connection with Item 17 of the Franchise Disclosure Document, the following paragraph is included pursuant to Wisconsin law:

The conditions under which the Franchise Agreement can be terminated or not renewed may be affected by the Wisconsin Fair Dealership Law, Wisconsin Statutes, 1981-82, Title XIV-A, Chapter 135.

No statement, questionnaire, or acknowledgement signed or agreed to by a franchisee in connection with the commencement of the franchise relationship shall have the effect of (i) waiving any claims under any applicable state franchise law, including fraud in the inducement, or (ii) disclaiming reliance on any statement made by any franchisor. This provision supersedes any other term of any document executed in connection with the franchise.

EXHIBIT G

TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION
LIST OF CURRENT FRANCHISEES AND TERMINATED
FRANCHISEES CURRENT THROUGH DECEMBER 31, 2024

LIST OF CURRENT FRANCHISEES AS OF DECEMBER 31, 2024

Name of Franchise	Name of Franchisee	Address	City	State	Zip	Telephone Number
Phoenix	Doug Daniels	14425 N. 79th Suite H	Scottsdale	AZ	85260	480-998-2070
Little Rock	David & Kelly Fraiser	2216 Cantrell Rd.	Little Rock	AR	72202	501-907-7105
Sacramento	Saab Bagri & Gurmeet Rai (Roy)	9930 Kent Street	Elk Grove	CA	95624	916-686-4892
Ventura	Harris & Judy Steinberg	411 N. Lombard Street, Suite H	Oxnard	CA	93030	805-988-7861
San Francisco	Uri and David Rosenberg	1000-B Commercial Street	San Carlos	CA	94070	650-595-9999
San Diego	Tim & Julie Elkinton	6080 Miramar Rd Ste.100	San Diego	CA	92121	800-729-2567
Riverside	Douglas and Grant King	532 Malloy Ct.	Corona	CA	92878	951-460-4166
Denver	Mark & Polly Lestikow	8480 Upland Drive, Suite 200	Englewood	CO	80112	303-690-6901
Bethel	Nazar & Nataliya Bryksa	100 Wooster Street	Bethel	CT	06801	203-616-5847
Hartford	Gary Neff	140 Commerce	Cheshire	CT	06410	203-314-7719
Ft. Lauderdale	Stephen and Lori Newman	1650 S. Powerline Road, Unit E	Deerfield Beach	FL	33443	954-979-5150
Ft. Myers	Joseph & Kelly Edison	13881 Plantation Rd., #7	Fort Myers	FL	33912	239-225-7235
Orlando	Jack & Susan Green	1620 Timocuan Way Suite 124	Longwood	FL	32750	407-767-7111
Miami	Sal Roldan	14337 SW 119 th Ave.	Miami	FL	33186	305-969-8470
Tampa	Jack & Susan Green	13420 Wright Circle	Tampa	FL	33626	813-854-1866
Jacksonville	Jill & Marty Flores	2628 Port Industrial Dr #703	Jacksonville	FL	32226	904-645-9700
Atlanta	Roger & Renata Ares	6040 Northbelt Dr. Ste G	Norcross	GA	30071	404-277-1968
Chicago	Shad Peterson	1260 West Landmeier	Elk Grove	IL	60007	847-969-5555
Indianapolis	Josh & Amy Evans	3250 North Post Rd. #26J	Indianapolis	IN	46226	317-812-0304
Louisville	Bill & Laura Weldon	13010 Eastgate Parkway, #107	Louisville	KY	40223	502-722-2232

Name of Franchise	Name of Franchisee	Address	City	State	Zip	Telephone Number
Boston	Bill Pugh	355 Middlesex NE #13	Wilmington	MA	01887	781-270-1513
Baltimore	Donald Knapp & James Emche	1405 Tangier	Middle River	MD	21220	410-456-2063
Minneapolis	Doug & Theresa Williams	1991 Annapolis Lane	North Plymouth	MN	55441	763-551-9100
Detroit	Clint Bonkowski and Matt Valerio	7036 Kensington Rd.	Brighton	MI	48116	248-573-7019
Grand Rapids	Adam & Holly Tucker	2309 N. Burdick Street	Kalamazoo	MI	49007	616-681-3690
St. Louis	Blair Fortner	1581 Fenpark Dr.	Fenton	MO	63026	314-961-4300
Charlotte	Al Turner	8041-G Arrowridge Blvd.	Charlotte	NC	28273	980-306-8500
Wilmington	Gregor and Adriana Kysely	3308 Enterprise Drive	Wilmington	NC	28405	910-408-1063
Omaha	Matt and Shelby Beers	14639 Grover St	Omaha	NE	68144	402-697-3600
New Jersey	Drew Kirchner	60 South Avenue	Fanwood	NJ	07023	908-322-8270
Philadelphia	Rich Palko	7 Eves Dr., Suite 150	Marlton	NJ	08053	856-817-0001
New York	Ken Palmer	290 Duffy Avenue	Hicksville	NY	11801	516-932-3737
Las Vegas	Marc Dudley	65445 S. Decatur Blvd., #150	Las Vegas	NV	89118	702-850-4444
Cleveland	Bob & Kathy Pietrick	5305 Commerce Pkwy West	Cleveland	OH	44130	216-362-4660
Oklahoma	Lance Clark	331 NW 71 st St.	Oklahoma City	OK	73116	405-526-4106
Portland	Chris & Karen McIlmoil	19824 SW Teton Avenue	Tualatin	OR	97062	503-692-2877
Allentown	Bob & Joan Focht	7 Willow Street Industrial Park	Fleetwood	PA	19522	610-944-1333
Pittsburg	Michelle & Chuck Walters	1306 Penn Avenue	Jeannette	PA	15644	724-527-1234
Columbia	Lander & Leigh Cason	366 River Chase Way	Lexington	SC	29072	803-794-9414
Knoxville	Dan Nigolian	206 South Calderwood Street	Alcoa	TN	37701	865-268-5420
Nashville	Paul Lanzillotti	715 Space Park North	Goodlettsville	TN	37072	615-859-6330
Austin	Jason & Sarah Evans	8112 Ferguson Cutoff	Austin	TX	78724	404-226-0486

Name of Franchise	Name of Franchisee	Address	City	State	Zip	Telephone Number
Dallas	Jeff Henderson	600 E. Dallas Rd., #150	Grapevine	TX	76051	214-530-9447
El Paso	Alan & Lori Gaman	4584 Ripley Dr., Building 6	El Paso	TX	79922	915-584-2551
Houston	Joe & Henna Ali	915 Blenda Street	Houston	TX	77076	281-355-7676
San Antonio	Javier Aguirre & Susana Baca	4846 Whirlwind Dr.	San Antonio	TX	78217	210-905-4722
Salt Lake City	Bruce & Kathy Campbell	2064 W. Alexander Street, Suite A	West Valley	UT	84119	801-972-5757
Richmond	Bryan and Teresa Mueller	10520 Lakeridge Pky.	Ashland	VA	23005	804-559-0001
Washington DC*	Bruce Devlin	8500 Leesburg Pike, Ste 103	Vienna	VA	22182	301-893-1605
Virginia Beach	Jeff Bruzzesi	2632 Production Road	Virginia Beach	VA	23454	757-486-2726
Seattle**	Bill & Will Farris	12326 Beverly Park Road, Unit 118	Lynnwood	WA	98037	425-513-2700
Milwaukee	Carrie & Steve Montgomery	305 Wilmont Dr.	Waukesha	WI	53189	262-316-3380

NOTE: Some of these franchisees may own more than one Territory.

*Also operates in Washington, DC. This franchisee owns two Territories in Washington, D.C.

**This franchisee owns two Territories in Washington.

LIST OF OUTLETS TRANSFERRED FROM FRANCHISEES TO NEW OWNERS
AS OF DECEMBER 31, 2024

Name of Franchise	Name of Franchisee	Address	City	State	Zip	Telephone Number
Sacramento*	Barbara Feist	9930 Kent Street	Elk Grove	CA	95624	916-686-4892
Boston*	Paul Kneeland	355 Middlesex Ave #13	Wilmington	MA	01887	978-837-1000
Houston**	Gary Gaston	915 Blenda Street	Houston	TX	77076	281-355-7676

*Transferred one Territory.

**Transferred two Territories.

**FRANCHISEES WHO HAD AN OUTLET TERMINATED, CANCELLED, NOT RENEWED OR
OTHERWISE VOLUNTARILY OR INVOLUNTARILY CEASED TO DO BUSINESS AS OF
DECEMBER 31, 2024**

Name of Franchise	Name of Franchisee	Address	City	State	Zip	Telephone Number
Rhode Island	Drew Hollenbeck	1950 S. Country Train #1	East Greenwich	RI	0218	None ¹

¹ Franchisee is deceased

**LIST OF FRANCHISEES WHO HAVE SIGNED A FRANCHISE AGREEMENT BUT ARE NOT YET
OPEN AS OF DECEMBER 31, 2024**

Name of Franchise	Name of Franchisee	Address	City	State	Zip	Telephone Number
Birmingham ²	Chris & Rhonda Bell	10720 Highway 78	Riverside	Alabama	35135	205-594-6724
Raleigh	Shruti & Tommy Patel	TBD	TBD	North Carolina	TBD	704-804-0445
Chattanooga ²	Chris & Rhonda Bell	10720 Highway 78	Riverside	Alabama	35135	205-594-6724

² Opened January 2025

IF YOU BUY THIS FRANCHISE, YOUR CONTACT INFORMATION MAY BE DISCLOSED TO OTHER BUYERS WHEN YOU LEAVE THE FRANCHISE SYSTEM.

EXHIBIT H

TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION

NON-DISCLOSURE AGREEMENT AND CONFIDENTIALITY AGREEMENT

THE CLOSET FACTORY FRANCHISE CORPORATION
NON-DISCLOSURE AND CONFIDENTIALITY AGREEMENT

THIS NON-DISCLOSURE AND CONFIDENTIALITY AGREEMENT (this "Agreement") is made this _____ day _____, 20____ (the "Effective Date"), by and between _____ ("Franchisee"), on the one hand, and _____ ("Recipient"), on the other hand, with reference to the following facts:

A. The Closet Factory Franchise Corporation, a California corporation ("Franchisor") and Franchisor's affiliate, The Closet Factory, Inc., a California corporation, have developed the "Closet Factory System" for the establishment and operation of Closet Factory businesses which will market, install, repair and service custom closets and storage systems for consumers and sell other related products and services ("Closet Factory Outlets"), under the trade name and service mark "Closet Factory" and other related trademarks, service marks, logos and commercial symbols (collectively, the "Closet Factory Marks").

B. The "Closet Factory System" includes, without limitation, the operations and training manuals and any other written directives related to the Closet Factory System (the "Manuals"), the system developed by Franchisor and The Closet Factory, Inc. that includes operating methods and business practices related to Closet Factory Outlets, the relationship between Franchisor and its franchisees, interior and exterior store design, other items of trade dress, specifications for equipment, fixtures and uniforms, defined product offerings, specified pricing and promotions, restrictions on ownership, standard operating and administrative procedures, management and technical training programs, marketing and public relations programs, and Franchisor's website, all as Franchisor may modify the same from time to time, and may be disclosed to Recipient by Franchisee.

C. Franchisor has and continues to protect the confidentiality of the "Confidential Information" by, among other things, (i) not revealing the confidential contents of the Confidential Information to unauthorized parties; (ii) requiring Closet Factory franchisees to acknowledge and agree in writing that the Confidential Information is confidential; (iii) requiring Closet Factory franchisees to agree in writing to maintain the confidentiality of the Confidential Information; (iv) monitoring electronic access to the Confidential Information by the use of passwords and other restrictions so that electronic access to the Confidential Information is limited to authorized parties; and (v) requiring its franchisees to return all Confidential Information to Franchisor upon the expiration and termination of their Franchise Agreements.

D. Franchisor and Franchisee have entered into a Franchise Agreement under which Franchisor has granted Franchisee the right to own and operate a Closet Factory Outlet (the "Franchised Business") and to use the Closet Factory System, the Closet Factory Marks, the Manuals, and the Confidential Information in the operation of the Franchised Business.

E. Franchisee is obligated under its Franchise Agreement with Franchisor to obtain a written agreement from all supervisory and managerial personnel employed by Franchisee and each independent contractor engaged by Franchisee who may have access to the Confidential Information and who may be the recipient of the disclosure of the Confidential Information to maintain the confidentiality of the Confidential Information, to obtain the written agreement from all supervisory and managerial personnel employed by Franchisee and each independent contractor to not use the Confidential Information other than in the course of his or her employment or engagement by Franchisee and to not disclose any of the Confidential Information to any unauthorized parties during the period of time that he or she is providing services for Franchisee and forever after his or her employment or engagement by Franchisee ends.

NOW, THEREFORE, IT IS AGREED:

1. ACKNOWLEDGMENTS OF RECIPIENT.

1.1 No Prior Experience, Information or Knowledge. Prior to his or her employment or engagement by Franchisee, Recipient had no experience, information or knowledge whatsoever about businesses that market, design, manufacture, construct, install, repair and service custom closets and storage systems. Recipient's knowledge of the Confidential Information was obtained only from Franchisee following the Effective Date and only in the course of Recipient's employment or engagement by Franchisee.

1.2 Confidential Information. The Confidential Information includes all of the items included elsewhere in this Agreement and, in addition, without limitation, all tangible and intangible information (whether or not in electronic form) relating to Franchisor's business operations, styles, products and services, sources of materials and equipment, customer management and other software, data, other content, formulations, patterns, compilations, programs, devices and processes, business relationships, contact information for industry professionals, developmental or experimental work and services, improvements, discoveries, plans for research, potential new or supplemental products and services, websites, advertisements or ancillary products and services, marketing and selling methods and/or plans, business plans, budgets and unpublished financial statements, licenses, prices and costs, vendors, collaborators, current customer and prospective customer names and addresses, information regarding credit extensions to customers, customer service purchasing histories and prices charged to customers, customer lists and other customer data, information regarding the skills and compensation of employees and contractors of Franchisor, designs, drawings, specifications, source code, object code, documentation, diagrams, flowcharts, research, development, marketing techniques and materials, trademarks, trade secrets, sales/license techniques, inventions, copyrightable material, trademarkable material, databases, relationships between Franchisor and other companies, persons or entities, the Closet Factory System, and any other information or material considered proprietary by Franchisor whether or not designated as confidential information by Franchisor, that is not generally known by the public, or which derives independent economic value (actual or potential) from not being generally known to the public or persons unaffiliated with Franchisor or its affiliates and which is the subject of efforts by Franchisor that are reasonable under the circumstances to maintain its secrecy, and any other information in oral, written, graphic or electronic form which, given the circumstances surrounding its disclosure, would be considered confidential. Confidential Information also includes the manner in which any of the above described items may be combined with any other information or products or synthesized or used by Recipient. Confidential Information does not include any information that was in the lawful and unrestricted possession of Recipient prior to its disclosure by Franchisee to Recipient; is or becomes generally available to the public by acts other than those of Recipient after receiving it; has been received lawfully and in good faith by Recipient from a third party who did not derive it from Franchisor, Franchisee or Recipient; or is shown by acceptable evidence to have been independently developed by Recipient.

1.3 Independent Value. The Confidential Information (i) is not generally known by the public or parties other than Franchisor, its affiliates, its franchisees and Franchisee; (ii) derives independent economic value (actual or potential) from not being generally known to the public or persons unaffiliated with Franchisor or Franchisee; and (iii) is the subject of extensive efforts by Franchisor that are reasonable under the circumstances to maintain the secrecy of the Confidential Information.

1.4 Valuable and Proprietary. The Confidential Information has been developed by Franchisor, its founder and their affiliates by the investment of time, skill, effort and money and is widely recognized by the public, of substantial value, and is proprietary, confidential and constitutes trade secrets of Franchisor, its founder and their affiliates.

2. COVENANTS OF RECIPIENT.

Recipient agrees that so long as Recipient is employed or engaged by Franchisee and forever after his or her employment or engagement by Franchisee ends:

2.1 Maintain Confidentiality. Recipient will fully and strictly maintain the confidentiality of the Confidential Information, will exercise the highest degree of diligence in safeguarding the Confidential Information and will not disclose or reveal the Confidential Information to any person other than Franchisee or other personnel employed by Franchisee or independent contractors engaged by Franchisee while a supervisory or managerial employee or independent contractor of Franchisee and will then do so only to the degree necessary to carry out Recipient's duties as a supervisory or managerial employee or independent contractor of Franchisee.

2.2 No Reproduction or Use. Recipient will not directly or indirectly reproduce or copy any Confidential Information and will make no use of any Confidential Information for any purpose whatsoever except as may be required while Recipient is employed or engaged by Franchisee and will then do so only in accordance with the provisions of this Agreement and only to the degree necessary to carry out Recipient's duties as a supervisory or managerial employee or independent contractor of Franchisee.

2.3 Restrictions. Recipient specifically acknowledges and agrees Recipient may receive valuable specialized training and Confidential Information, including, without limitation, Confidential Information regarding the operational, sales, promotional, and marketing methods and techniques of Franchisor and the Closet Factory System, which are unique and proprietary to Franchisor, derive independent economic value from not being generally known to the public and are the subject of Franchisor's efforts and that are reasonable under the circumstances to maintain their secrecy. Recipient therefore covenants that while employed or engaged by Franchisee, Recipient shall not, either directly or indirectly, for himself or herself, or through, on behalf of, or in conjunction with any person, or legal entity (i) divert or attempt to divert any present or prospective Closet Factory customer to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with the Closet Factory Marks and the Closet Factory System; or (ii) own (either beneficially or of record), engage in or render services to, whether as an investor, partner, lender, director, officer, manager, employee, consultant, representative or agent, and any business that looks like, copies, imitates, or operates with similar trade dress or décor to Closet Factory Outlets.

2.4 Third Party Beneficiary. Franchisor is, and shall be and remain, a third party beneficiary of this Agreement and will have the independent right to enforce the terms of this Agreement.

3. GENERAL TERMS.

3.1 Injunction. Recipient recognizes the unique value and secondary meaning attached to the Confidential Information and the elements of the Closet Factory System and agrees that Recipient's noncompliance with the terms of this Agreement or any unauthorized or improper use of the Confidential Information by Recipient will cause irreparable damage to Franchisor and its franchisees. Recipient therefore

agrees that if Recipient should engage in any unauthorized or improper use or disclosure of the Confidential Information, Franchisor and Franchisee, independently, will be entitled to both permanent and temporary injunctive relief from any court of competent jurisdiction without notice or the posting of any bond, to prevent any unauthorized or improper use or disclosure of the Confidential Information in addition to any other remedies prescribed by law. Due to the irreparable damage that would result to Franchisor and Franchisee from any violation of this Agreement, Recipient acknowledges and agrees that any claim Recipient believes he or she may have against Franchisor or Franchisee will be deemed to be a matter separate and apart from Recipient's obligations under this Agreement and will not entitle Recipient to violate or justify any violation of the provisions of this Agreement.

3.2 Heirs and Successors; Entire Agreement. This Agreement shall be binding upon and inure to the benefit of the parties, their heirs, successors and assigns. This Agreement represents the entire understanding between the parties regarding the subject matter of this Agreement and supersedes all other negotiations, agreements, representations and covenants, oral or written. This Agreement may not be modified except by a written instrument signed by Franchisor and Recipient that expressly modifies this Agreement. The parties intend this Agreement to be the entire integration of all of their agreements on this subject of any nature regarding the subject matter of this Agreement. No other agreements, representations, promises, commitments or the like, of any nature, exist between the parties.

3.3 No Right to Use Closet Factory Marks or Closet Factory System. This Agreement is not a license of any sort, and does not grant Recipient any right to use or to license the use of, the Closet Factory System, the Closet Factory Marks or the Confidential Information, which right is expressly reserved by Franchisor.

3.4 Waiver and Validity. Failure by Franchisor to enforce any rights under this Agreement shall not be construed as a waiver of such rights. Any waiver, including a waiver of default in any one instance, shall not constitute a continuing waiver or a waiver in any other instance. Any invalidity of any portion of this Agreement shall not affect the validity of the remaining portions and unless substantial performance of this Agreement is frustrated by any such invalidity, this Agreement shall continue in full force and effect.

3.5 Headings and Gender. The headings in this Agreement are for purposes of convenience only and shall not be used in construing the provisions of this Agreement. As used in this Agreement, the male gender shall include the female and neuter genders, the singular shall include the plural and the plural, the singular.

3.6 Attorneys' Fees. If Franchisor becomes a party to any legal proceedings concerning this Agreement by reason of any act or omission of Recipient, Recipient shall be liable to Franchisor for the reasonable attorneys' fees and court costs incurred by Franchisor in the legal proceedings. If any party to this Agreement commences any legal proceeding against another party arising out of or in connection with this Agreement, the prevailing party shall be entitled to recover from the other party its reasonable attorneys' fees and costs of suit.

3.7 Cumulative Remedies. Any specific right or remedy set forth in this Agreement, legal, equitable, or otherwise, shall not be exclusive, but shall be cumulative with all other rights or remedies set forth herein or allowed or allowable by law.

3.8 Notices. Except as otherwise expressly provided herein, all written notices and reports permitted or required to be delivered by the parties under this Agreement shall be deemed delivered at the time delivered by hand, one (1) business day after transmission by fax or email (with a confirmation copy sent by regular

United States mail), or three (3) days after placement in the United States mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed as follows:

Any notice or demand to Franchisee shall be given to:

Fax: _____

With a copy to:

The Closet Factory Franchise Corporation
12800 South Broadway
Los Angeles, California 90061
Attention: John La Barbera

Any notice or demand to Recipient shall be given to:

Fax: _____

Any party may change its address for the purpose of receiving notices, demands and other communications by a written notice given in the manner set forth above to the other party.

3.9 Venue. The parties agree that all disputes arising out of or relating to this Agreement shall be brought in the Superior Court of California, County of Los Angeles, or the United States District Court of the Central District of California. To the fullest extent that the parties may do so under applicable law, the parties waive the defense of inconvenient forum to the maintenance of an action in these Courts and agree not to commence any action of any kind except in these Courts.

3.10 Governing Law. This Agreement shall be interpreted and construed under the laws of California. In the event of any conflict of law, the law of California shall prevail, without regard to the application of California conflict of law rules. If, however, any provision of this Agreement would not be enforceable under the laws of California, and if the Franchised Business is located outside of California and such provision would be enforceable under the laws of the state in which the Franchised Business is located, then such provision shall be interpreted and construed under the laws of that state. Nothing in this Section 3.10 is intended by the parties to subject this Agreement to any franchise or similar law, rules, or regulation of any state to which it would not otherwise be subject.

3.11 Counterparts and Electronic Transmission; Electronic Signatures. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Copies of this Agreement with signatures that have been transmitted by email or by facsimile shall constitute and be deemed original copies of this Agreement for all purposes, provided that the copies are fully executed, dated and identical in form to the

original hard copy version of this Agreement. In addition, this Agreement may be signed electronically by the parties and electronic signatures appearing on this Agreement shall be deemed to be the same as handwritten signatures for the purposes of the validity, enforceability and admissibility of this Agreement.

(Signature page follows)

IN WITNESS WHEREOF, the parties have executed this Agreement on the Effective Date.

FRANCHISEE:

RECIPIENT:

_____,
A _____

By: _____

Name: _____

Title: _____

THE CLOSET FACTORY FRANCHISE CORPORATION

EFFECTIVE DATES

STATE EFFECTIVE DATES

The following states have franchise laws that require that the Franchise Disclosure Document be registered or filed with the states, or be exempt from registration: California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

This document is effective and may be used in the following states, where the document is filed, registered, or exempt from registration as of the Effective Date stated below:

<u>State</u>	<u>Effective Date</u>
California	May 28, 2025 (Exempt)
Hawaii	Pending
Illinois:	April 30, 2025
Indiana:	July 15, 2025 (Exempt)
Maryland:	May 15, 2025
Michigan	May 1, 2025
Minnesota:	May 15, 2025
North Dakota:	April 30, 2025
Rhode Island:	May 1, 2025
South Dakota:	April 30, 2025
Virginia:	June 18, 2025
Wisconsin:	April 30, 2025

Other states may require registration, filing, or exemption of a franchise under other laws, such as those that regulate the offer and sale of business opportunities or seller-assisted marketing plans.

EXHIBIT I

TO THE FRANCHISE DISCLOSURE DOCUMENT

THE CLOSET FACTORY FRANCHISE CORPORATION

RECEIPTS

ITEM 23
RECEIPTS
(RETURN THIS COPY TO US)

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If The Closet Factory Franchise Corporation offers you a franchise, then The Closet Factory Franchise Corporation must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to us or an affiliate in connection with the proposed franchise sale or grant, except as to the following states:

Michigan requires that The Closet Factory Franchise Corporation give you this Disclosure Document at the earlier of 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

New York requires you to receive this Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If The Closet Factory Franchise Corporation does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred, and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed in Exhibit E.

The franchisor is The Closet Factory Franchise Corporation, 12800 South Broadway, Los Angeles, California 90061, 310-715-1000.

Date of Issuance: April 28, 2025, as amended August 13, 2025.

Franchise Seller Information: John La Barbera, Dan Grandon, Jeff Henderson, Stephen Newman and Gregory Stein, all at 12800 South Broadway, Los Angeles, California 90061, (310) 715-1000; Michael Touey at Franchise Advisors, 1040 Camino Del Rey Pkwy., Palm Coast, Florida 32137; (610) 574-1500; and _____.

I received a Disclosure Document dated April 28, 2025, as amended August 13, 2025, that included the following Exhibits:

- Exhibit A - Financial Statements
- Exhibit B - Franchise Agreement with Exhibits
- Exhibit C - Confidentiality Agreement
- Exhibit D - Table of Contents for Manuals
- Exhibit E - List of State Franchise Administrators
- Exhibit F - State Addenda
- Exhibit G - List of Franchisees and Terminated Franchisees
- Exhibit H - Nondisclosure and Confidentiality Agreement

EFFECTIVE DATES

- Exhibit I - Receipts

Date

Prospective Franchisee

Date

Prospective Franchisee

Please sign this copy of the Receipt, date your signature, and return it to: John La Barbera, The Closet Factory Franchise Corporation, 12800 South Broadway, Los Angeles, California 90061.

ITEM 23
RECEIPT
(KEEP THIS COPY FOR YOUR RECORDS)

This Disclosure Document summarizes certain provisions of the franchise agreement and other information in plain language. Read this Disclosure Document and all agreements carefully.

If The Closet Factory Franchise Corporation offers you a franchise, then The Closet Factory Franchise Corporation must provide this Disclosure Document to you 14 calendar days before you sign a binding agreement with, or make a payment to us or an affiliate in connection with the proposed franchise sale or grant, except as to the following states:

Michigan requires that The Closet Factory Franchise Corporation give you this Disclosure Document at the earlier of 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

New York requires you to receive this Disclosure Document at the earlier of the first personal meeting or 10 business days before the execution of the franchise or other agreement or the payment of any consideration that relates to the franchise relationship.

If The Closet Factory Franchise Corporation does not deliver this Disclosure Document on time or if it contains a false or misleading statement, or a material omission, a violation of federal and state law may have occurred, and should be reported to the Federal Trade Commission, Washington, D.C. 20580 and the state agency listed in Exhibit E.

The franchisor is The Closet Factory Franchise Corporation, 12800 South Broadway, Los Angeles, California 90061, 310-715-1000.

Date of Issuance: April 28, 2025, as amended August 13, 2025.

Franchise Seller Information: John La Barbera, Dan Grandon, Jeff Henderson, Stephen Newman and Gregory Stein, all at 12800 South Broadway, Los Angeles, California 90061, (310) 715-1000; Michael Touey at Franchise Advisors, 1040 Camino Del Rey Pkwy., Palm Coast, Florida 32137; (610) 574-1500; and _____.

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EFFECTIVE DATES

- Exhibit I - Receipts

Date

Prospective Franchisee

Date

Prospective Franchisee

Keep this copy for your records. This Disclosure Document may be available in several formats including on paper, on a CD, in pdf format or on our website, www.closetfactory.com.